

Seek diversified income

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Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

- **Why?** 1) A diversified approach to yield generation is essential, given tight credit spreads, higher yield volatility, and geopolitical uncertainty. 2) This should include a mix of investment grade, select high yield, and emerging market bonds to balance risk and enhance returns. 3) Diversifying beyond bonds via equity income and structured strategies may boost yields and steady incomes if debt fears escalate.
- **Why now?** 1) Further US and UK easing and low rates across Europe and Switzerland make income opportunities harder to find. 2) Medium-duration quality bonds should deliver mid-single-digit returns, outperforming cash, especially in adverse scenarios. 3) Equity income and yield-generating structures can further enhance income streams in the current environment.



Given tight credit spreads and concerns over government debt, we advocate for a diversified approach to generating yield. Source: Pexels

Video: [Seek diversified income](#)

Quality bonds

We believe quality bonds—specifically high grade government and investment grade corporate bonds—have an important role as a source of yield and diversification in 2026. We expect medium-duration quality bonds (four to seven years) to deliver mid-single-digit returns from a mix of yield and capital appreciation as the Federal Reserve cuts rates. We expect quality bond returns to exceed cash rates, especially in adverse scenarios where bond prices rise as rate expectations fall. Investors in economies with low or zero interest rates may not derive much income from quality bonds but should remember their portfolio diversification benefits as a reason to hold them.

Diversified fixed income strategies including quality and emerging market bonds

We believe quality bonds—specifically high grade government and investment grade corporate bonds—have an important role as a source of yield and diversification in 2026. We expect medium-duration quality bonds (four to seven years) to deliver mid-single-digit returns from a mix

of yield and capital appreciation as the Fed cuts rates once more by the end of the first quarter. We expect quality bond returns to exceed cash rates, especially in adverse scenarios where bond prices rise as rate expectations fall. Investors in economies with low or zero interest rates may not derive much income from quality bonds but should remember their portfolio diversification benefits as a reason to hold them.

While we are more cautious about riskier parts of fixed income like high yield given very tight spreads, we see merit in diversified fixed income strategies for investors looking to earn higher returns from fixed income. By combining bonds across countries, regions, and sectors across investment grade bonds, select high yield, and emerging market debt in a risk-controlled way, investors can enhance yield while managing credit and duration risks.

We recently turned more constructive on emerging market debt. Absolute yields remain appealing, with corporate and sovereign bonds offering 6-7% (based on JPMorgan data). Fundamentals (external balances and ratings) have been improving, and the macro backdrop is supportive, particularly if the US dollar were to depreciate further as

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this can ease USD debt servicing costs in developing nations. We expect the majority of returns to come from interest rate declines and carry, rather than tightening spreads over Treasuries—indeed, EM debt spreads across credit profiles remain at some of the tightest levels since 2010, but we expect better growth and fundamentals to outweigh this potential risk.

Equity income

Income-seeking investors in markets where bond yields are low or credit spreads are tight may find better income generation opportunities in equity strategies, including both dividends and options strategies. Our preferred markets for dividend strategies are Switzerland, where high-quality dividend stocks yield at about 3% for the Swiss Market Index, well above local bonds; and Southeast Asia, where average dividend yields offer appeal as part of a well-diversified local income investment approach. Equity income strategies that combine dividend strategies with systematic option-selling could generate even higher yields, enhance diversification of returns, and offer a more resilient income stream across cycles.

Yield-generating structured investments

We believe investors should also consider yield-generating structured investments, especially as interest rates drop. These structures—such as equity-linked notes—offer a yield in exchange for the obligation to buy an instrument at a predefined lower price. Lower rates make these structures relatively more attractive, although low volatility can mean option premiums and yields are reduced. We recommend careful attention to liquidity, issuer, and market risks within a diversified portfolio.

Global asset class preferences definitions

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid, commonly known stock indexes, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Most attractive – We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.

Attractive – We consider this asset class to be attractive. Consider opportunities in this asset class.

Neutral – We do not expect outsized returns or losses. Hold longer-term exposure.

Unattractive – We consider this asset class to be unattractive. Consider alternative opportunities.

Least attractive – We consider this asset class to be among the least attractive. Seek more favorable alternative opportunities.

Appendix

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