



(UBS)

How can income investors tackle higher inflation?

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Inflation has risen in recent months amid oil supply disruptions in the Middle East. The prospect of sticky or resurgent inflation poses a challenge for income investors.

Without careful preparation, portfolios may be exposed to the twin risks of eroding purchasing power and volatile asset prices. Traditional "safe havens," such as high-quality government bonds, may not deliver sufficient after-inflation returns if inflation surpasses expectations. We believe investors can respond by diversifying across bonds, equity income strategies, and alternatives.

Diversified fixed income can enhance yields and spread risks.

- High grade government and investment grade corporate bonds should remain a core holding for yield and diversification. We like locking in higher yields in short and medium maturities.
- Investors seeking enhanced yields may need to cast their nets wider. We like combining investment grade, select high yield, and emerging market debt in a risk-controlled way.
- A moderate strategic allocation to inflation-linked bonds (ILBs) may also be a valuable tool for mitigating return drawdowns. ILBs pay a fixed real (after-inflation) coupon, while their nominal value is regularly adjusted in line with consumer price inflation.

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Investors can also consider equity income approaches.

- CIO's preferred markets for dividend strategies are Switzerland, where high-quality dividend stocks yield around 3%—well above local bond yields—and Southeast Asia.
- Combining dividend strategies with systematic option-selling may further enhance yields, diversify returns, and provide a more resilient income stream across market cycles.

Longer-term investors may consider exposure to alternatives.

- For those able to bear the risks and illiquidity of private assets, infrastructure and real estate may offer sources of diversified, inflation-linked income.
- We like focusing on diversified, core, and core-plus assets in non-cyclical sectors with robust, predictable, inflation-linked cash flows.
- However, investors must be mindful of risks such as illiquidity, leverage, and market volatility.

Did you know?

- We are more cautious on some riskier parts of fixed income like high yield. Nonetheless, we see merit in diversified fixed income strategies (including exposure to emerging market hard currency debt) for investors looking to earn higher returns from fixed income. By combining investment grade bonds and select growth-sensitive debt instruments in a risk-controlled way, investors can potentially enhance yield while managing credit, currency, and duration risks.
- Although inflation risks make near-term easing unlikely, we still believe the Federal Reserve will lower policy rates over the next 12 months. Our base case is for rate cuts in March and June 2027.
- We expect the European Central Bank to raise interest rates in the near term, but this is already more than priced by markets.

Investment view

We believe that income-seeking investors should diversify sources of yield amid uncertainty about the inflation outlook. We like opportunities across bonds, equity income, structured strategies, and select alternative investments.

Original report – [How can income investors tackle higher inflation?, 15 June 2026.](#)

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