Despite the uncertainty across macroeconomics, geopolitics, and corporate fundamentals, CIO believes investors have ways to add durable yield to their portfolios. (UBS)

Investors have ways to add durable yield to their portfolios

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We believe that the Fed remains set to begin easing policy this year, and that more evidence of rising adoption and monetization of artificial intelligence looks set to emerge in the coming weeks. US corporate earnings growth should also broaden out beyond the Magnificent 7, underpinning our 7–9% growth forecast for the first quarter.

In the Middle East, we stick to our base case that attacks and tension will persist in the months ahead, but that they should not lead to a major direct confrontation between the US and Israel on the one side, and Iran on the other (barring any unintentional miscalculations).

But with implied equity volatility remaining higher—the VIX Index, or Wall Street's "fear gauge," stands at 18.2, below the year-to-date high of 19.3 but above the 13 reading at the beginning of 2024—investors seeking steady portfolio returns and reliable income may need to consider diversifying their investment approach to add durable income and navigate choppier times:

Active and diversified exposure to fixed income. We continue to favor quality bonds in our global portfolios given the prospect of lower interest rates and elevated starting yields. In addition, investors should consider an active and diversified approach to managing their risk exposure in order to capture opportunities across the fixed income spectrum, including select opportunities in US high yield, emerging market debt, and securitized credit. We also believe sustainable fixed income offers an appealing alternative to high-quality bonds.

Structured stock investments with yield-generating strategy. For investors looking to add more cautious exposure to equity markets, we recommend yield-generating structured investments. Strategies that combine a bond with the sale of a put option—the right but not obligation to sell an asset at a predefined price—may present a more defensive way to buy an asset, especially if investors expect the asset to deliver moderate returns in the near term. The coupon payments from this type of structured strategy can provide returns or a buffer against price corrections. Generally, higher volatility can lead to higher coupon payments. This approach may allow investors to buy a particular asset, but at a lower level than today's market price. And investors looking for steady cash flow may also like the predictability of a so-called "reverse convertible" strategy's income stream.

However, investors must be mindful of risks like changes in interest rates, implied volatility, and the ability of the underlying issuer to repay the investor's capital.

So, despite the uncertainty across macroeconomics, geopolitics, and corporate fundamentals, we believe investors have ways to add durable yield to their portfolios.

Main contributors - Solita Marcelli, Mark Haefele, Daisy Tseng, Christopher Swann, Jennifer Stahmer, Frederick Mellors, Jon Gordon

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