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# Two considerations for today’s income investors

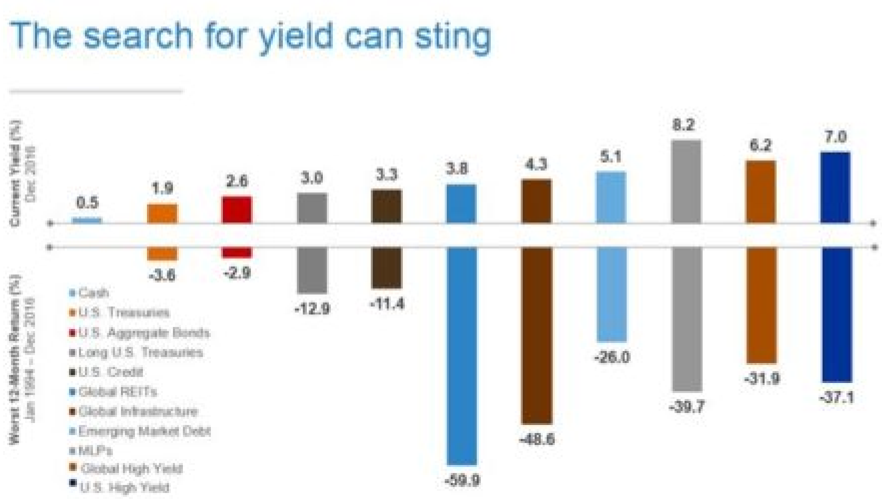
The good news for income investors is that interest rates appear to be on the rise. As of February 16, 2017, the 10-year U.S. Treasury yield has risen over 100 basis points since its post-Brexit low of 1.38% on July 5, 2016. These increased yields should help some investors reach their income targets.

The bad news is that the search for income is still challenging. A 2.45% yield on the 10-year U.S. Treasury note (as of Feb. 16, 2017) still does not represent a lot of income. And if bonds have been a primary source of income, then the fourth quarter of 2016 would not have been encouraging: the Bloomberg Barclays U.S. Aggregate Bond Index was down -3%, marking its worst quarter since the third quarter of 1981.

Disappointing results and low yields can cause investors to seek other avenues for income, many offering the allure of higher returns as well. For example, in December 2016, U.S. high yield (Bloomberg Barclays U.S. High Yield Index), global high yield (Bloomberg Barclays Global High Yield Index) and emerging market debt (Bloomberg Barclays Emerging Markets Debt Index) offered current yields of 7%, 6.2% and 5.1%, respectively. Certain non-fixed income asset classes also offered competitive yields: MLPs (Alerian MLP Index) came in at 8.2%; global infrastructure (S&P Global Infrastructure Index) posted 4.3% yields and global real estate (FTSE EPRA/NAREIT Index) 3.8%.

However, these higher yields are not free: the downside risk can be substantial. Some investors may recall when MLPs (Alerian MLP Index) lost -32.6% in value for the calendar year 2015 when oil prices plummeted. As the chart below shows, the 2015 declines were not even the worst 12-month losses some of these higher yielding sectors have experienced: based on data going back to January 1994, MLPs, global real estate and U.S. high yield bonds have experienced 1-year downturns of -39.7%, -59.9% and -37.1%, respectively. In contrast, the U.S. Treasury Index's worst 12-month return since 1994 was -3.6%.

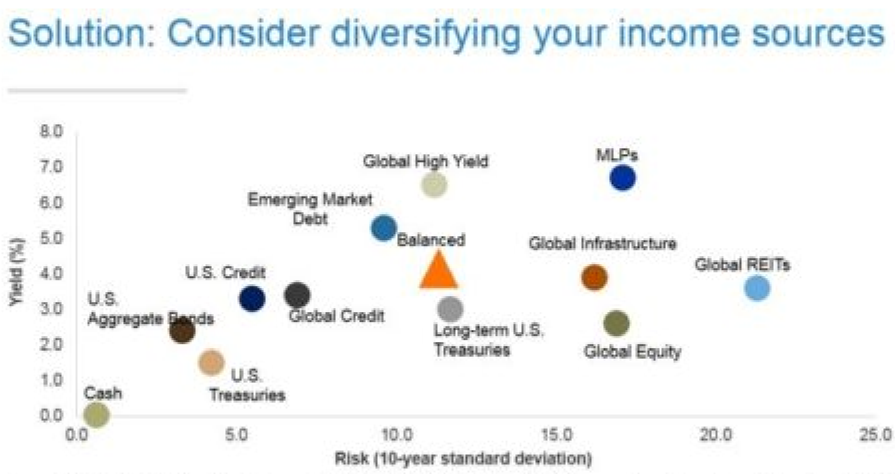
**Click on the images below for full view.**




Data as of 12/31/2016. Source: Cash: Citigroup 1-3 Month T-Bill Index; U.S. Treasuries: Barclays U.S. Treasury Index; U.S. Aggregate Bonds: Bloomberg Barclays U.S. Aggregate Bond Index; Credit: Barclays U.S. Credit Index; Long Treasuries: Barclays Long U.S. Treasuries Index; Global Infrastructure: S&P Global Infrastructure Index; Global REITs: FTSE EPRA/NAREIT Index; Emerging Market Debt: Barclays Emerging Markets Debt Index; U.S High Yield: Barclays U.S. High Yield Index; Global High Yield: Barclays Global High Yield Index; MLPs: Alerian MLP Index.

**Two considerations for income investors in the current environment**

1. **Be cognizant of potential risks** - they can be substantial, as the chart above illustrates.
2. **Diversify your income sources**. While many investors are attracted to high-dividend paying stocks and high-yielding bonds, an over concentration in those kinds of assets can create unintended long-term risks. We believe that thoughtfully combining a broad range of equity, real assets and fixed income securities that have both income *and* growth potential may help income investors reach their targets.

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## The bottom line

With interest rates apparently on the rise, income-seeking investors may have an easier time meeting their income targets. That said, risks remain, particularly for investors who may have stretched for yield. Diversifying sources of income and thoughtfully combining asset classes that can provide both income and return may help investors navigate the uncertainty of the months ahead.

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Indexes are unmanaged and cannot be invested in directly.

**Alerian MLP Index:** a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. The index is disseminated by the New York Stock Exchange real-time on a price return basis.

**Bloomberg Barclays U.S. Aggregate Bond Index:** An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Barclays Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

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**Bloomberg Barclays Global High-Yield Index:** An index which provides a broad-based measure of the global high-yield fixed income markets. The Global High-Yield Index represents that union of the U.S. High-Yield, Pan-European High-Yield, U.S. Emerging Markets High-Yield, CMBS High-Yield, and Pan-European Emerging Markets High-Yield Indices.

**FTSE EPRA/NAREIT Developed Index:** A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

**Citigroup 1-3 Month T-Bill Index**: Tracks the performance of short-term U.S. government debt securities.

**Barclays U.S. Credit Index:** Comprises the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities. The U.S. Credit Index is a subset of the U.S. Government/Credit Index and the U.S. Aggregate Index.

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**Barclays Long U.S. Treasuries Index:** Includes all publicly issued, U.S. Treasury securities that have a remaining maturity of 10 or more years, are rated investment grade, and have $250 million or more of outstanding face value.

**S&P Global Infrastructure Index:** Provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure across the global listed infrastructure market, the index has balanced weights across three distinct infrastructure clusters: Utilities, Transportation, and Energy.

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