

Race for Income: Beyond Traditional Bonds

Investors are looking for consistent cash flow, mitigation against the risk of loss, and greater predictability and stability – often with tax efficiency in mind. In a word, they want **income**. The good news: most investors have more tools at their disposal than they realize, and a broader set of strategies can open new paths to their goals.

When Bonds Fell Short, Equities Stepped Up

For much of the decade following the financial crisis and continuing through the COVID era, interest rates remained at or near zero. Bonds retained their place in portfolios, but the income they generated diminished to a level that no longer reliably met the needs of investors seeking income. Cash, meanwhile, offered little practical alternative.

Equity income helped fill that gap. Dividend-paying stocks emerged as one of the more viable solutions for income-oriented investors. While dividends can be reduced or suspended—a risk that should not be overlooked—equities offered investors willing to look beyond traditional bonds something fixed income could not: the potential for a growing income stream supported by the underlying earnings power of companies.

Why Equity Income Still Makes Sense

Even with interest rates higher today, the case for equity income has not weakened. It has evolved.

A common misconception is that lower dividend yields necessarily imply lower income. (dividend yield = dividends paid / stock price x 100). As stock prices have advanced, the S&P 500 dividend yield has declined and now sits near its lowest level since the technology bubble. Yet yield is only a ratio. The actual cash dividends paid by S&P 500 companies have increased meaningfully since 2022, rising by roughly 17%.¹ (The S&P 500® Index includes 500 leading US large-cap equity companies and covers approximately 80% of available market capitalization.) Investors are receiving more income even as the headline yield appears lower. In effect, the dividend base has expanded, but it is being measured against higher stock prices.

Dividend growth can also serve as an important indicator of quality. Companies that can consistently raise their dividends often have durable cash flows, pricing power, and management teams with strong visibility into the trajectory of their businesses. In uncertain markets, including those shaped by inflation, tariffs, and economic volatility, these attributes become especially valuable. High-quality dividend growers have historically demonstrated greater resilience during downturns, offering a measure of downside support alongside income.

Dividend-focused stocks are not solely an income allocation. They can also appreciate over time, contributing to total return. This is particularly relevant for investors with long time horizons who need their capital to keep pace with rising costs. Because equity dividend yields and bond yields do not always move in tandem, combining equity income with fixed income can help smooth the overall income experience across different market environments.

Global Infrastructure: Steady Income with Defensive Qualities

For investors looking for income that can hold up in tough conditions, global infrastructure is worth considering. Infrastructure assets – think utilities, toll roads, pipelines – tend to generate stable, long-term cash flows that are often tied to inflation. That combination of income and defensiveness makes infrastructure a useful complement to both dividend stocks and bonds in a well-rounded portfolio.

Is Fixed Income Worth a Fresh Look?

Before 2022, bonds offered relatively little income, and many investors had to move into riskier corners of the market – high yield, private credit, senior loans – just to find meaningful yield. That's changed. Rates have

reset higher, and today's bonds offer competitive income within higher-quality portfolios. Investors no longer need to reach for risk to find yield.

Locking in today's yields may also make sense relative to cash. Money market funds have benefited from higher rates, but their yields follow US Federal Reserve (Fed) policy closely. With the Fed having paused rate cuts in 2026 after easing in late 2025, short-term rates could fall if the economic outlook softens. Extending into intermediate-term bonds can help lock in attractive yields for years, rather than rolling over cash at whatever the Fed allows.

Municipal Bonds: A Compelling Option for Tax-Conscious Investors

Municipal bonds also deserve a closer look, particularly for investors in higher tax brackets. After price declines pushed municipal yields higher in recent years, single-A municipal portfolios can now offer attractive tax-equivalent yields (the return a taxable investment would need to match the yield on a municipal bond or other tax-free investment) – potentially more than comparable taxable bonds, once the tax benefit is factored in. For investors with tax considerations building income-focused portfolios, municipal bonds could be a natural fit.

Core-Plus: Active Management Earns Its Place

Within fixed income, active core-plus strategies offer more flexibility than passive index funds. Active managers can look beyond Treasuries – into sectors like asset-backed securities, for example – and adjust positioning as conditions change. In a market environment where rates, credit spreads, and global yield curves can shift quickly, that flexibility has real value. Diversifying across global fixed income markets can also reduce reliance on US interest-rate risk alone.

Building an Income Portfolio That Lasts

The right answer isn't choosing between stocks and bonds – it's using both thoughtfully. Fixed income can provide predictable, reliable cash flows. Equity income, especially dividend growers and infrastructure, can provide a growing income stream that helps keep pace with inflation over time. A fixed coupon stays the same; growing dividends can compound alongside the rising cost of living.

As investors live longer, that distinction becomes increasingly important. Balancing income today with income growth over time – while managing risk – is the core challenge of income investing. Investors who approach it with the full toolkit available to them are best positioned to meet it.

¹Dow Jones Indices. (2026, January 26). *S&P Dow Jones Indices reports U.S. common indicated dividend payments increase of \$13.1 billion in Q4 2025 and \$46.4 billion for 2025*. PR Newswire.

Important information:

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing. Past performance is not necessarily indicative of future results. Asset allocation and diversification do not ensure a profit or protect against a loss.

This material has been provided for informational purposes only and should not be construed as investment advice or a recommendation of any particular investment product, strategy, investment manager or account arrangement, and should not serve as a primary basis for investment decisions. Prospective investors should consult a legal, tax or financial professional in order to determine whether any investment product, strategy or service is appropriate for their particular circumstances. Views expressed are those of the author stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. This information may contain projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations. Information contained herein has been obtained from sources believed to be reliable but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. Statements are current as of the date of the material only. Any forward-looking statements speak only as of the date they are made, and are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment and past performance is no indication of future performance.

BNY Investments is the brand name for the investment management business of BNY and its investment firm affiliates worldwide. BNY is the corporate brand of The Bank of New York Mellon Corporation and may be used to reference the corporation as a whole or its various subsidiaries generally.

© 2026 BNY Mellon Securities Corporation, distributor, 240 Greenwich Street, 9th Floor, New York, NY 10286.
Investments:

Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value.

MARK-963540-2026-07-08