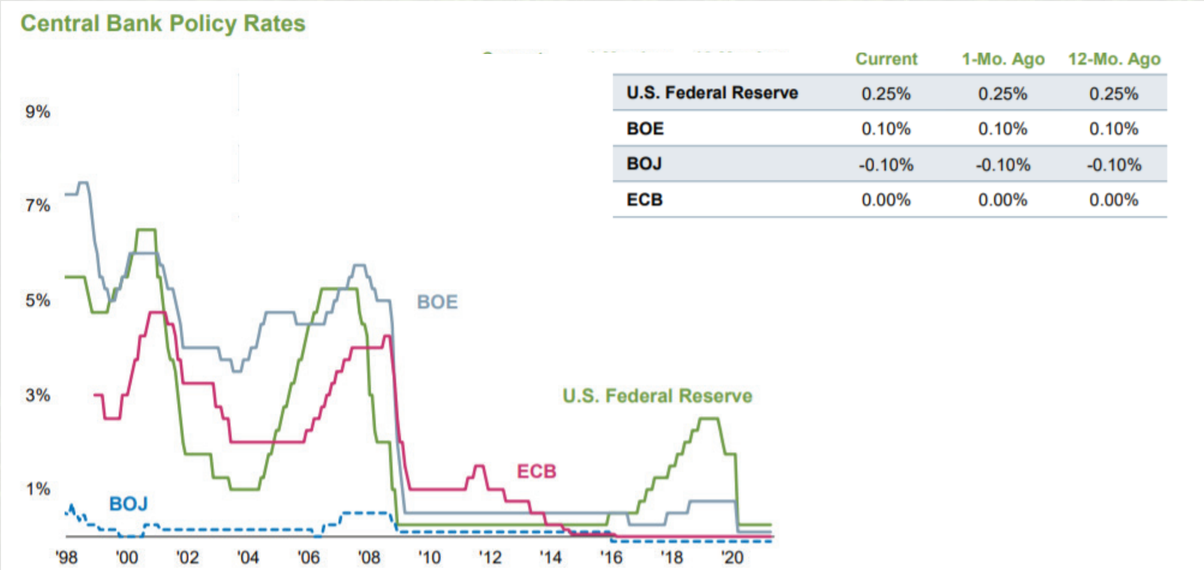
EVERGREEN™
WEALTH SOLUTIONS
PLAN. GROW. PROSPER.™

Generating Income in a Low-Yield Environment

Part 1:
How We Got Here

The events of the last year have impacted us all, and they have impacted the approach that governments and central banks have taken toward supporting their economies. In the US for example, the Federal Reserve (the "Fed") lowered its benchmark short-term interest rate to nearly zero and began purchasing longer duration, fixed-income investments. The latter served to provide liquidity to financial markets, but the purchases also served to drive up fixed-income prices, which pulls down yields that are available to other investors. The Fed's motivation for taking these actions is to support an economic recovery through accommodative monetary policy. However, these actions also serve as a mechanism to force investors to take greater risks in search of return and to avoid the potential eroding effects of inflation on their cash positions, yielding nearly zero.

The federal government did its part to support households and businesses with direct cash payments and enhanced unemployment benefits, which may also have served to drive up the prices of assets like stocks, bonds, and homes. Chart 1 below highlights the short-term policy rates set by key central banks over the last 20 years, which are all currently near zero. Charts 2 and 3 exemplify the effect that significant monetary and fiscal stimulus have had on asset prices as the yields on global stocks and a balanced 60/40 portfolio are also near long-term lows, creating challenges for investors who require income from their portfolios.



	Current	1-Mo. Ago	12-Mo. Ago
U.S. Federal Reserve	0.25%	0.25%	0.25%
BOE	0.10%	0.10%	0.10%
BOJ	-0.10%	-0.10%	-0.10%
ECB	0.00%	0.00%	0.00%

Source: Eaton Vance as of April 30, 2021

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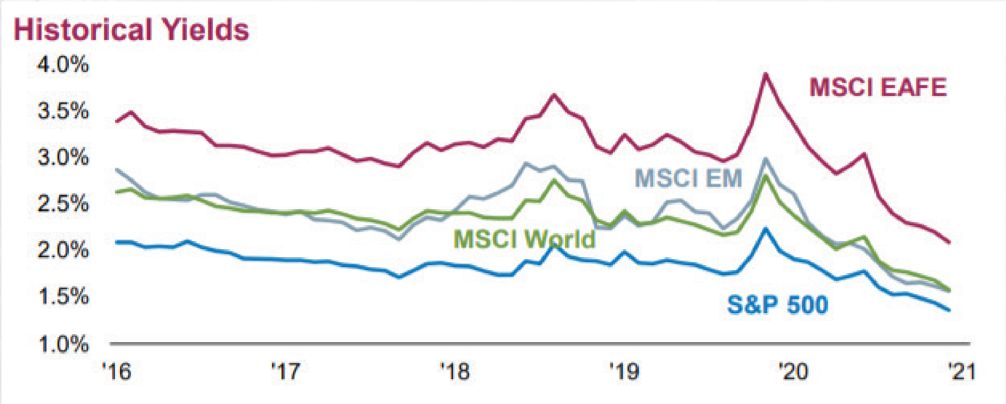
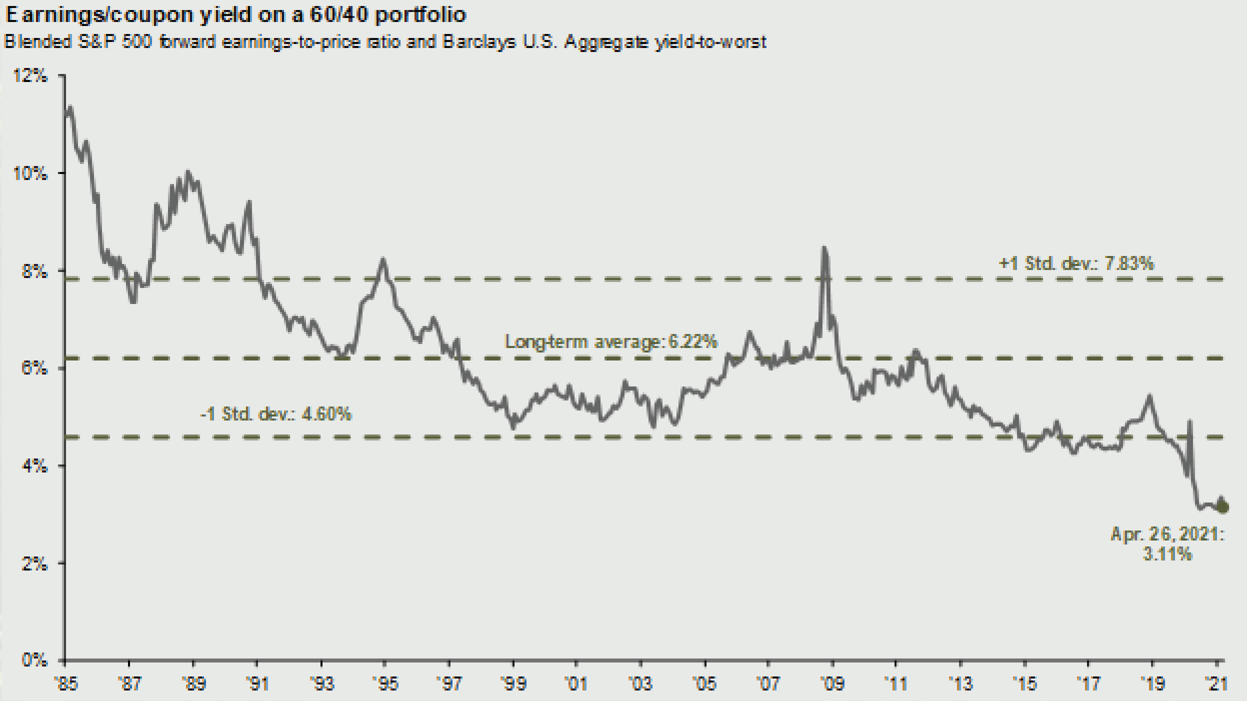
How We Got Here



Source: Eaton Vance as of April 30, 2021



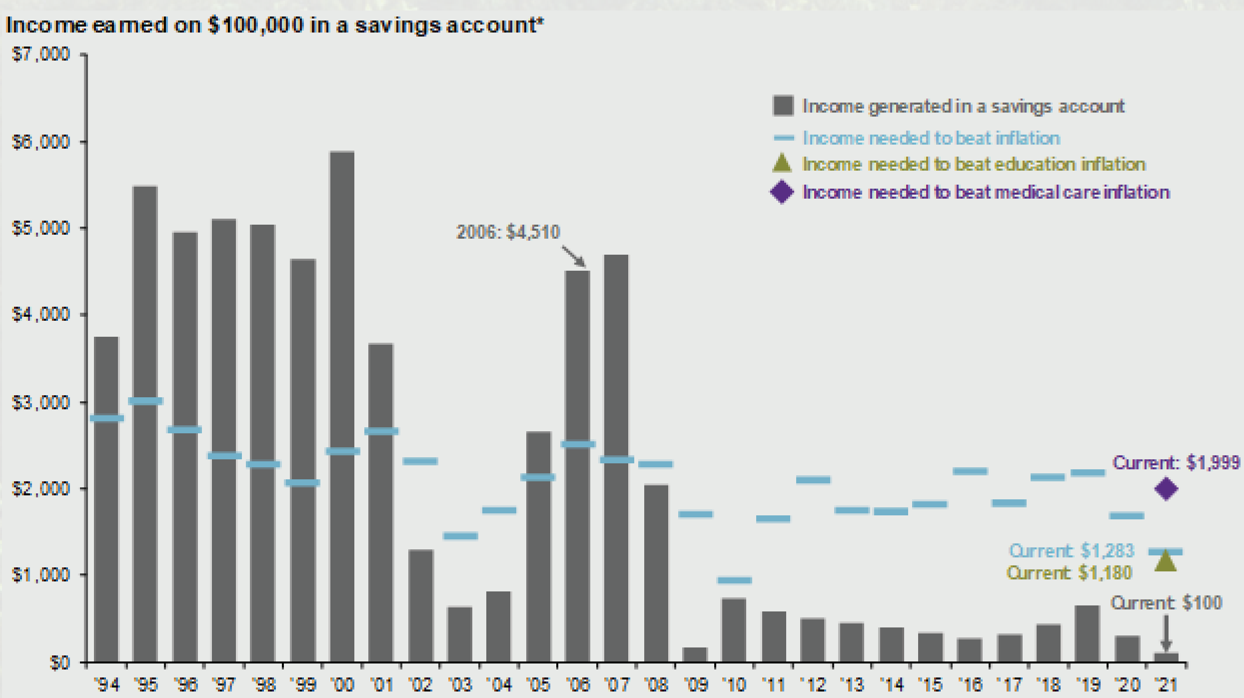
Source: JPMorgan as of April 26, 2021

Part 2:

We've Been Here Before

For more than five years in the wake of the global financial crisis of 2008, the Federal Reserve held its benchmark rate near zero while simultaneously taking steps to influence longer duration bonds as well. The US central bank takes these steps to encourage borrowing, spending, and investing to drive economic growth. However, this creates challenges for savers, particularly when certain crucial costs, such as medical care and education, continue to rise at a meaningful rate.

The chart below highlights the annual income earned from the average savings account by calendar year compared to the amount of income that would have been needed to outpace inflation. The abrupt slowdown and forced closure of many parts of the global economy in response to the COVID-19 pandemic — followed by significant fiscal and monetary stimulus and snapback in demand for goods — has already created above-average inflation in 2021. It is reasonable to assume that these inflationary trends will continue, so investors who require current income from their portfolios may need to accept greater risk than a traditional savings account to meet their objectives and outpace rising costs. Identifying areas of opportunity for generating income while managing risks will be a crucial balance to strike in the years ahead.



Source: JPMorgan as of April 26, 2021

Part 2:

We’ve Been Here Before

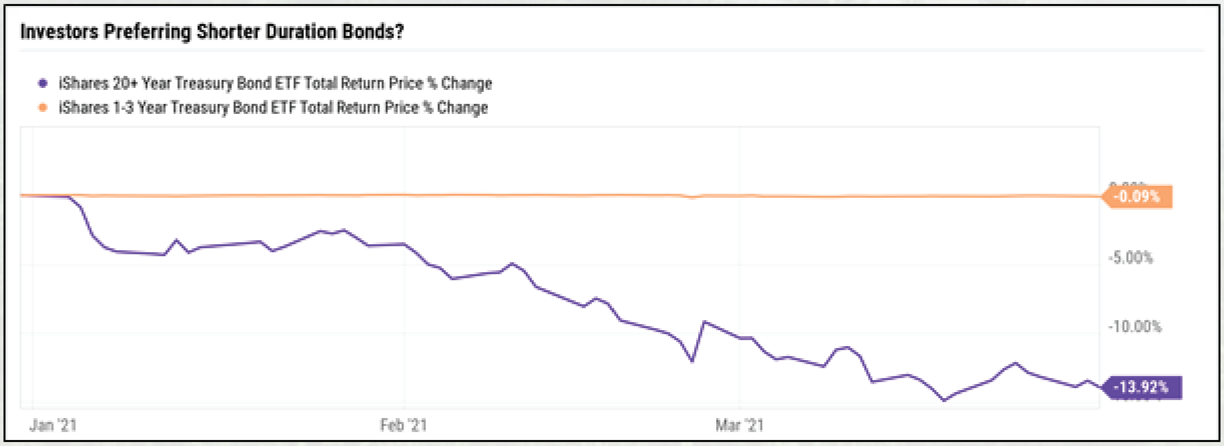
While this environment was frustrating for those holding cash, other fixed-income investments such as bonds, preferred stocks, and dividend-oriented equities climbed. As the economy began to show signs that it was nearing a sustainable recovery roughly five years after the global financial crisis, the Fed began to increase short-term borrowing rates in an effort to move toward a more sustainable long-term monetary policy.

Despite the central bank indicating its intentions to remain very accommodative for the next few years, the success of the vaccine roll-out in the US and the robustness of the economic recovery may necessitate that the Fed begin to increase rates again within the next several quarters. While the potential for higher short-term rates benefits those invested in bank instruments and short-term Treasuries, this potential may create volatility for longer-dated bonds and other interest-rate sensitive investments as their prices could fall to adjust for the higher yield environment. A balanced portfolio that includes other types of assets beyond just traditional bonds such as alternative investments and dividend-oriented stocks may help mitigate the risk of rising interest rates and participate in economic growth.

Part 3:

What Can We Do Today?

Anyone who invested in longer maturity Treasury bonds in early 2021 knows the pain of a rising interest rate environment. The iShares 20+ Year Treasury Bond ETF declined nearly 14% in just the first 3.5 months of the year, essentially wiping out ~seven years of future interest income before the potential would be whole again, absent any future price changes. This is emblematic of the risks that face traditional bond investors today.



Source: Eaton Vance as of April 30, 2021

Today, we still anticipate that traditional investment grade and government bonds will remain a source of relative stability and liquidity in portfolios, as their current income component and ability to mitigate against equity market drawdowns are less compelling than in the past.

For investors who seek current income from their portfolios to fund lifestyle expenses, we recommend shifting some portion to traditional, higher quality fixed income (at least 1-2 years of expenses), but more current income and risk mitigation properties may be found from alternative strategies such as flexible bond funds, hedged equity/option income strategies, global macro, and managed futures.

Traditional bonds have historically been used to serve three key roles in portfolio management:

1. **As a source of stability and liquidity,**
2. **As a source of current income,**
3. **And, as a source of less correlated returns to traditional equity investments.**

Part 4:
Not All Income is Taxed Equally

Throughout this piece, we've identified multiple sources of income that may be distributed from an investment or portfolio, including income generated from dividends, bond interest income, municipal bond income, option premiums, etc. Taxation of these returns can differ significantly through time and is based on each individual's specific situation. It is important to speak with your financial professional regarding the types of income that may be most attractive from an after-tax perspective for your specific situation.

Part 5:
What Does the Future Hold?

While the future is always difficult to predict, we anticipate that in the very long run, investors should be rewarded for accepting risks. For most investors seeking to generate current income from their portfolios, a professionally-managed, balanced approach that includes multiple sources of returns and income streams makes sense. These could include government bonds, corporate debt, preferred stocks, dividend-paying stocks, and stock-option writing strategies.

																2006 - 2020	
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	Ann.	Vol.
REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Comdty. 17.2%	Large Cap 9.9%	EM Equity 23.3%
EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	REITs 14.5%	Small Cap 8.9%	REITs 23.1%
DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Small Cap 11.4%	High Yield 7.5%	Small Cap 22.6%
Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Large Cap 10.2%	REITs 7.1%	DM Equity 19.1%
Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	DM Equity 8.1%	EM Equity 6.9%	Comdty. 18.8%
Asset Alloc. 15.[illegible]%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	Asset Alloc. 6.0%	Asset Alloc. 6.7%	Large Cap 16.7%
High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	EM Equity 3.4%	DM Equity 5.0%	High Yield 12.2%
Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	High Yield 1.3%	Fixed Income 4.5%	Asset Alloc. 11.8%
Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Cash 0.0%	Cash 1.2%	Fixed Income 3.2%
Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	Fixed Income -2.9%	Comdty. -4.0%	Cash 0.8%

Source: JPMorgan as of May 19, 2021

Final Thoughts

At Evergreen Wealth Solutions, your best interest is at the center of every decision we make. Investors who require current income from their portfolios may need to accept greater risk than a traditional savings account to meet their objectives and outpace rising costs. Identifying areas of opportunity for generating income while managing risks will be a crucial balance to strike in the years ahead.

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