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Investment Income: Beyond Bonds

Last month, we explored what a bond is and why its price changes over time, highlighting how bonds are often a go-to for investors seeking regular income. This month, we would like to expand on that theme by looking at **different sources of investment income**—a topic that came up recently in a conversation with one of our friends.

Our friend, a retired partner of an international accounting firm, shared a common challenge confronted by many investors: while his investments—primarily in real estate—have performed well in terms of capital appreciation, they don't generate enough rental income to cover his annual expenses. As a result, he often has to sell assets to generate liquidity, which he then keeps in cash deposits. This is not an uncommon scenario, especially for retirees and other conservative investors who need predictable cash flow.

Bonds: Reliable, But Not Always Enough

As we discussed previously, bonds provide regular interest payments, making them a cornerstone of income-focused portfolios. However, many investors fall into the trap of relying too heavily on the traditional **60/40 portfolio split**—60% bonds, 40% equities—especially in retirement. While bonds offer “fixed” income, they often don't keep pace with inflation, unless they are inflation-linked securities issued globally and by different entities ranging from sovereign to corporate. Historically,

U.S. bonds have provided annualized returns of 1.6% over 10 years and 4.1% over 25 years, but of course this figure can vary significantly in interim periods depending on interest rate cycles and inflation.¹

A quick aside: The 60/40 split gained prominence in the 1990's and gained in popularity until it became a de facto “rule of thumb.” The combination historically delivered strong returns with lower risk than an all-equity portfolio, however we believe it is no longer appropriate, and hasn't been for many years, due to low bond yields and periods of simultaneous stock and bond declines.

Equities: A Source of Growing Income

Although equities can be more volatile than bonds, certain stocks—especially utilities—offer consistent dividends that can serve as a reliable income stream. Regulated electricity and natural gas utilities typically operate in stable environments with predictable cash flows, allowing them to maintain or gradually increase dividend payments over time. Other industries would include water supply and treatment and telecom infrastructure providers

In a low-interest rate environment, dividend yields from utilities can exceed the returns of government bonds, offering a prudent way to enhance income without taking on significant interest rate risk. Annualized returns for the MSCI World Utilities Index (USD) were 5.72% for 25 years, 7.91% for 10 years, 8.56% for 5 years and 9.12% for 3 years.²

¹ Bloomberg US Aggregate Bond Index

² MSCI World Utilities Index (USD) Factsheet July31, 2025

REITs: Real Estate Income Without the Hassle

Real Estate Investment Trusts (REITs) offer another compelling source of income. REITs own and manage income-generating properties—such as residential buildings, shopping centers, or healthcare facilities—and are required to distribute a large portion of their earnings to shareholders. This structure often results in higher-than-average dividend yields. Currently the MSCI US REIT Index (USD) has a dividend yield of 4.15% compared to 3.79% for the US 2-year Treasury and 4.33% for the 10-year.³

The Case for a Balanced, Liquid Portfolio

A diversified portfolio that includes dividend-paying equities, REITs, and bonds can provide a steady stream of income while maintaining liquidity. This flexibility is crucial—not just for covering day-to-day expenses, but also for unexpected needs like helping a family member buy their first home, start a business, or replace a car.

³ MSCI US Reit Index (USD) Factsheet, 31 July 2025/US-Treasury prices approximate as of 22 August 2025

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