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Kiplinger's
Investing for Income
Strategies to Boost Your Cash Yield

Say It Again: It Is Still an Investor's World

Normally, alarm over brewing inflation, potentially higher interest rates, and proposed tax hikes on investors is nasty for bonds, mortgages, dividend-paying and preferred stocks, and even the values of pools of bank loans and other credit securities. But not so fast: Each of those categories, which this letter has steadfastly supported for many years, is thriving again in 2021, thanks to U.S. economic vigor, the Federal Reserve's restraint to date, and crazy caches of cash seeking higher yields. Old-school interest-rate and inflation scolds and other financial conservatives assail this confidence as naïve, even dangerous. But at the midpoint of this year, we reject all calls to moderate our convictions that interest rates are in a low trading range and that inflation pressure will abate when bottlenecks and shortages of everything from chicken wings to computer chips to lumber ease and elevated oil prices are fully baked into year-over-year inflation readings. Growth will stay sound in 2022 compared with 2018 and 2019. Alleged trouble spots such as commercial real estate and state and local debt are proving not to be hazards.

So, as we ponder the rest of 2021, the list of investments to like is longer than those to cull or avoid. We agree that stock prices are high relative to earnings and that the spreads of corporate and municipal bond interest rates over Treasury yields are narrow—by accounts the narrowest since

> **Growth will stay sound in 2022. The list of investments to like is longer than those to cull.**

2009. And we hear fresh skepticism, including from some of the central bankers themselves, about the Federal Reserve's plan to freeze short-term interest rates until 2023 while continuing to buy mountains of T-bonds and mortgages. But fighting the Fed before it changes course (instead of merely talking about it) is pusillanimous—and fear rarely pays. At best, you prevent a calendar quarter or so of losses. At worst, you miss yet another run of opportunities.

The downside of this up cycle is the growing chance of violent and painful three-day panics (or even another flash crash), but it is futile to try to predict or trade through them. In any case, if you gain 50% (a common result since last April) and later lose 10%, it is greedy to complain. Better to keep what is working and paying interest and dividends. "It is definitely still risk-on," says Terry Sawchuk, a financial adviser in suburban Detroit, meaning you should stay with your stocks and bonds. He trusts the Fed's resolve and its powers to contain market disruptions. Says Randy Schwimmer,

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an expert in commercial credit and debt investments for Nuveen, "The competition for better assets is fierce and will grow." Schwimmer adds that private equity funds with $600 billion are urgently looking for "premium yield." And retirees, many of them sellers of small businesses, are scarfing up higher-yielding investments, he finds. All of that is bullish.

Two moonshots. Six months ago, Kiplinger did not think the U.S. economy would be this robust this soon. But we advised confidence in the financial markets. "Stay active and confident, but do not expect any moonshots," we wrote in January's letter. Well, of the six asset classes for which we gave a thumb up for 2021, the only two equity choices are real rockets: Pipelines, as measured by the Alerian midstream index, show a year-to-date total return of nearly 60%. Blue-chip dividend stocks, represented by DVY, the iShares Select Dividend ETF, are up 26%—twice the return of an S&P 500 index fund. We also lauded various short-term bond indexes and corporate and taxable municipal bonds. Those have broken even despite the inflation angst, so you lost nothing compared to hoarding cash. And while we said we were neutral on real estate, we did encourage you to look at four subsectors: apartments, communications towers, industrial and logistics. Those have an average year-to-date return of 23%—excellent.

More recently, the Fed's declaration on June 16 that it will consider tightening credit earlier in 2023 than at the end of that year did engender a pile of cautious or even negative Wall Street comments. But Fed chairman Jerome Powell parried these questions by saying the jobs picture is still challenging and that the prices of items such as lumber and used cars are due to fall back to pre-pandemic levels. So, the trick in shaping your second-half portfolio strategy is to forget the COVID bust-and-boom and look ahead to the restoration of the magic 2-2-2 regime: 2% growth, 2% inflation and 2% long-term interest rates. That, as we know, is the ideal environment for standard diversified portfolios. And it's on the way back by next year.

Meanwhile, there are some fresh income-with-growth opportunities for the rest of 2021. Preferred stocks—especially new issues at 6% or up—are keepers and something to accumulate. Real estate investment trusts that own offices and retail real estate are reasonable catch-up plays on the quicker-than-expected drawdown of the work-from-home and stay-away-from-crowds era. Municipal bonds (see page 4) are in short supply and benefit from excellent credit conditions as ratings agencies upgrade state and local governments. Look for taxable municipal bonds, which faltered in early 2021, to have a better second half.

Another theme is our preference for U.S. assets over foreign stocks, bonds, funds and currency. The Fed has done a reliable job of defending the dollar against a drumbeat of dark forecasts. The U.S. is demonstrably the economic leader of the world as humanity progresses from struggling to survive the pandemic to restoring regular and sustainable economics. Though oil is a worldwide commodity, it is priced in dollars, so domestically focused oil investments such as Valero that also pay high income are our go-to choices. We did not predict oil and gas producers and suppliers would rally as they have, but dividends are consistent and secure. And if long-term U.S. interest rates go up a little more, that stands to cause trouble for the emerging-markets bonds, stocks and currencies so many bloggers and investment commentators inexplicably love.

The sum of all this is that the second half of 2021 will not be as boomy as the first, but there are no signs of torpedoes and landmines. Stick with what is working until it stops delivering reliable income with occasional growth. This is very much an investor's world.

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AT&T: You Still Have Time

From the frantic reaction to AT&T's restructuring plan, you'd think AT&T as we know it—the maximum-dividend yielder among non-energy blue-chip stocks—has already ceased to exist or is already transformed beyond all recognition. That may someday prove true, but not yet.

The spin-off of AT&T's Time Warner unit, which includes CNN, HBO and TBS, is designed to free up cash so T can build its future around 5G wireless. However, the deal will not close until halfway into 2022, if then. And although it cements enormous capital losses, it is not entirely a humbling surrender. AT&T's new management recognizes that it is smarter to stream data, entertainment and news faster and more reliably than it is to own and manage movie studios and TV networks.

The company stands to shrink by about 25% and will need to invest more in its physical plant, so the plan includes a cut in the dividend-payout ratio that implies AT&T will spend way less on dividends—about $8 billion a year, down from $15 billion. But the current dividends will stay in place for the next three quarters, maintaining the 7% yield for the next payout date, August 2, and for November and likely for next February. And the effective yield on a post-breakup position will be closer to 5% than the 3% that has been widely reported (which would be the ratio of the expected new, lower dividend rate to the estimated post-sale share value).

That's because, as AT&T brass suggests—and as seconded by many analysts and advisers—T shareholders will get an allotment of shares in the new Warner Brothers Discovery (slated to be 71% owned by AT&T), and you can sell that forthwith to buy more AT&T shares and qualify for the lesser (but still fair) dividend. The cash flow to cover it will be adequate, and the growth prospects decent. AT&T competes well in hard-core telecom with Verizon, T-Mobile and scattered small players. Its lagging total return and share price are the legacy of the tens of billions of dollars that AT&T's previous regime borrowed to buy ailing DirecTV and Time Warner. About one-fourth of AT&T's total debt would shift to the Discovery balance sheet.

The details of the proposal are available at AT&T's investor relations website and from scores of financial firms and investor boards. By and large, Wall Street endorses the strategy but is now neutral on the stock, which has barely budged from its $28-to-$30 range since a 3% drop on the news. The absence of an immediate dividend cut stopped initial heavy selling.

Several readers are asking us for guidance and, as AT&T is in the Kiplinger 25 for Income, we shall oblige. To make it clear, this is not the kind of planned reorganization that results in "new" shares rather than "old" ones. T will be a smaller company, with an estimated 25% less revenue, but that is all. Here are the choices.

Sell now. As we explained, you will get several more of the full dividends, and if the stock's price were going to crash, it would have already. So, no rush.

Buy more. If you put up $29 now, and the market corrects and T goes to $26, you have achieved nothing. But if there is a dip in the next few weeks, buying is not a mistake. We have read arguments that the post-deal shares could rise to $35. And we have not seen anybody claiming that Verizon and T-Mobile are going to wipe the floor with T's surviving wireless business. In fact, the price wars seem to be calming down.

Wait for the reorganization and then sell the Discovery shares. That is a dividend-preservation trade but also a way to renounce evermore the unpredictable Time Warner media companies. We have no idea what the market shall make of the combination with Discovery or whether the new organization will further remake itself after 2022.

What about other AT&T securities? These are okay to keep. Besides common stock, T has $25-a-pop bond snippets and preferred shares. The baby bonds—symbols TBB (coupon 5.35%) and TBC (5.625%)—trade at $26.50 to $27, and both are callable in a couple of years, so they are dangerous to buy but fine to hold for now. The 5% Class A and 4.75% Class C preferreds are not callable until 2024. They also trade in the $26 range; the current yield of 4.5% is safe from any premature dividend cut. But whenever these gadgets go over $27, we look to sell.

Revenue Bonds Sweep the Muni Awards

When air and highway traffic vanished and New York City subways were as deserted as a snow-covered beach, we trusted the portfolio managers and ratings analysts who insisted that such borrowers had enough cash in reserve to protect bondholders for at least a year. We also know that public university systems and transport authorities dare not jeopardize their access to low-cost credit. Public-service layoffs, service cuts and closings spread, and construction projects were delayed or canceled—but not bond interest. Mayors and governors took heat for "putting Wall Street before Main Street," but bond prices duly held up. For example, as New Jersey Turnpike revenue plunged 14% in 2020 (despite a 36% toll-rate increase), Turnpike Authority bonds dipped only slightly in price and have since recovered; a 5% NJTP issue maturing in 2031 trades at 120, for a yield to maturity of 2.7%. A year ago, despite traffic-count declines of more than 50% that persisted for several months, the same bond still changed hands at 115.

Now, road congestion is back, students will return to their dorms, and Congress has helped to replenish municipalities' accounts. The vibe about all municipal bonds is sweet, and demand continues to greatly exceed new supply. But judging from the various sector indexes, it is sweetest for revenue bonds—those backed by user fees, utility bills and tolls rather than general tax payments. Through June 11, Standard & Poor's reports that the tax-free debt of airports, health care facilities, public colleges and toll roads have all returned 2% or more for the year to date, and 6% to 8% for one year. That is more than twice the gain of local general obligation bonds, and it contrasts with (small) losses in just about every taxable government or corporate bond category. The broadest S&P index of 82,000 revenue bonds, covering bonds with a combined market value of $1.3 trillion, has outgained general obligations in eight of the past 10 years and is on the way to winning in nine of 11.

This should lead you first to your broker's bond listings and calendar of new issues. You will find plenty of tax-free revenue bonds rated A or BBB with yields to maturity of more than 2% and good liquidity. There are some guidelines, to be sure: Never buy an individual bond dependent on any jurisdiction that is losing population or where property values are falling; stay away from speculative (or empty) arenas, stadiums and convention centers; and grab your double or triple tax exemption (national, state and local) if available.

But if you find it easier or more convenient to invest indirectly, you can find plenty of actively managed funds that concentrate on these types of credits. The clue is when "high yield" or "high income" appears in the fund's name (which is not a mirror of corporate junk-bond funds that also go by "high yield"). As we often do, we spotlight the redoubtable **Nuveen High Yield Municipal** (NHMAX, yield 4.8%, one-year return 15.8%). It mixes industrial revenue bonds and housing-project debt with regular infrastructure, but it has more than 3,000 positions, so it is wide and deep. **BlackRock High Yield Municipal** (MDYHX, 2.8%, 16.8%) is its peer, along with **Invesco High Yield Municipal** (ACTHX, 4.0%, 13.7%) and **MainStay MacKay High Yield Municipal** (MMHAX, 2.8%, 12.8%). All pay monthly, and while each will suffer isolated bond-pick mishaps, those are rare, so do not be scared by boilerplate language about default risks. All have veteran management teams steeped in the vagaries of unusual tax-exempt debt. And do try to buy through a broker's no-sales-charge channel. For some reason, municipal high-yield funds tend to come from load-fund families.

Timely Tactic of the Month

In January 2021, we wrote that apartments were a contrarian idea, their earnings hit hard by unemployment and tales of outmigration from major cities. But relocation has run its course, and jobs and salaries are up—as are the prospects of multifamily housing REITs. A favorite, which we recommended years ago at a lower price, is the former Investors Real Estate Trust, now called **Centerspace (CSR, $75.30, yield 3.7%, year-to-date return 7.6%)**. CSR is still sort of a turnaround and thus trades 4% below its properties' net asset value. But bigger apartment REITs are up 30% this year, and so they now look richly priced against their real estate. Here is a chance to catch up.

Kiplinger's 25 for Income

Kip 25 selections usually trade within tight price ranges while they maintain or (we hope) increase cash distributions. But often, favorable dividend news will help their share prices break loose, as with American Water. AWK leaked 4% in last month's letter, but it gushed a 10% dividend raise this month, which helped push its shares up 5%, to more than $160—within $4 of its all-time high. Magellan Midstream has had two grand months in a row, rising 8.3% this time atop an 8% gain in June's letter. And National Grid declared a hefty, 13.5% dividend raise, to be paid in August—the British-American utility's best payout since 2015. Grid has a year-to-date return of 15% and a one-year return of 25%, excellent for utilities. REITs and bonds also had a fine month—REITs due to economic strength and bonds due to the surprise (though not to us) fallback in interest rates. Fidelity Capital & Income now has a 7.8% year-to-date return and 26.2% for one year. Look for us to add FAGIX to the Greatest Generation of bond funds before much longer.

Utility stocks		Price	Yield	Frequency
American Electric Power (AEP)	Traditional electric company serving 11 eastern and southern states	$84.76	3.5%	quarterly
AT&T (T)	Wireless-service giant that grew out of the former SBC	29.32	7.1	quarterly
American Water (AWK)	Largest investor-owned water utility, serving 16 states	160.36	1.5	quarterly
National Grid (NGG)	British national gas and electric utility that also operates in New York and New England	65.47	5.2	semiannually
Xcel Energy (XEL)	Central states electric system that emphasizes wind energy	69.08	2.6	quarterly
High-yielding open-end bond funds				
Baird Core Plus Bond (BCOSX)	A rare general bond fund that usually beats its benchmarks handily	$12.41	2.0%	quarterly
Dodge & Cox Global Bond (DODLX)	A mix of domestic and foreign corporate bonds, mostly denominated in U.S. dollars	12.05	2.2	quarterly
Fidelity Capital & Income (FAGIX)	Creative and aggressive junk bond fund	11.24	3.0	monthly
Hotchkis & Wiley High Yield (HWHAX)	Boutique high-yield fund that concentrates on small companies	11.49	4.2	monthly
Loomis Sayles Bond (LSBRX)	Go-anywhere investment-grade bond fund	13.60	2.6	monthly
TCW Emerging Markets (TGEIX)	A higher-quality approach to emerging markets, with all debt in hard currency	8.31	4.7	monthly
Closed-end mutual funds and ETFs				
AllianceBernstein Global High Income (AWF)	High-yield corporate bonds and government bonds from emerging markets	$12.36	6.4%	monthly
BNY Mellon Municipal Bond Infrastructure (DMB)	*A leveraged closed-end fund that likes transportation and hospital bonds*	*14.74*	*4.3*	*monthly*
Eaton Vance Floating-Rate Income Trust (EFT)	One of the oldest floating-rate loan funds, with a team of five veteran managers	14.41	5.4	monthly
iShares U.S. Preferred ETF (PFF)	This exchange-traded index fund spreads your money in more than 303 preferred stocks	38.98	4.7	monthly
Nuveen Municipal Value (NUV)	*This non-leveraged closed-end is an alternative to the BNY Mellon Infrastructure fund*	*11.43*	*3.3*	*monthly*
Pimco Corporate & Income Strategy (PCN)	An unusual mixture of high-yield corporate, muni and foreign bonds	18.72	7.2	monthly
Real estate investment trusts				
Annaly Capital Management (NLY)	Borrows cheaply to reinvest in government-guaranteed mortgage securities	$9.39	9.4%	quarterly
Digital Realty Trust (DLR)	Developer and operator of data centers in the U.S., Canada, Europe and Asia	161.04	2.9	quarterly
Realty Income (O)	Landlord to chain stores and restaurants, also known for 607 straight monthly dividends	70.38	4.0	monthly
Welltower (WELL)	Develops and owns assisted-living facilities, hospitals and medical labs	76.69	3.1	quarterly
Energy investments and partnerships				
Brookfield Infrastructure Partners (BIP)*	Owns toll highways, ports and transmission lines	$54.28	3.8%	quarterly
Magellan Midstream Partners (MMP)*	One of the largest pipeline carriers of gasoline, diesel and chemicals	53.15	7.7	quarterly
Suburban Propane Partners (SPH)*	Propane distributor normally yields substantially more than junk bonds	15.38	7.8	quarterly
Valero Energy (VLO)	World's largest independent refiner, known for large dividend increases	81.29	4.8	quarterly

Funds in italics pay tax-exempt income. Investments with an asterisk (*) are partnerships. Prices and yields as of June 11, 2021. SOURCES: Fund companies, Morningstar Inc., Yahoo.

Ask Jeff

Readers are invited to send questions about income investments to jkosnett@kiplinger.com. I'll answer you personally if there's no space here for a published reply.

Dear Jeff:
Is it time to give up on CORR, CorEnergy Infrastructure Trust?
Kathy

Dear Kathy:
Looks that way. These limping shares have not joined the 2021 revival of energy-income securities. CORR is a REIT that finances energy companies that lease pipelines, storage tanks and other oil and gas facilities. It was successful for much of the previous decade, but it slashed quarterly dividends from 75 cents to 5 cents in the oil-price bust of early 2020. The REIT structure is favorable for an energy lender, and CorEnergy is trying to grow again. But its 2.7% current yield is measly for a lender, and there is no sign of a meaningful dividend restoration. It needs a big fix. You need not stand by and watch.

Dear Jeff:
I am thinking of investing in a Flaherty & Crumrine leveraged closed-end preferred stock fund, such as PFD, its Preferred & Income fund. But what is a sensible price to buy? Is a 20% premium over net asset value too high? What about 14%, its premium in mid June? And what of the other Flaherty funds?
Andrew

Dear Andrew:
PFD is a fabulous fund whose 10-year annualized 10.2% total return on NAV (which measures portfolio managers' skill and/or luck) trounces the S&P preferred index's 6.7%. F&C also has a record of steady-to-rising distributions. We cannot pinpoint why PFD fetches premiums of up to 30%, and neither can the firm, but CEFs from brands that generally trade rich (Pimco is another) rarely fall to a discount, so it is fair to buy PFD shares at 10% to 15% over NAV. I say the same about Flaherty's other funds, which are no slouches. DFP, the Dynamic Preferred & Income Fund, closed June 11 at a 15% premium, and over the past five years and for the year to date it has even out-returned PFD. Study the schedule of investments and you'll see sizzling stuff, such as a fat share of a private placement to MetLife with a coupon of 9.25% that matures in 2038. These people are special.

Dear Jeff:
In late 2019, I took your advice to "take a knee" and sold my shares of Realty Income. Now, I want to reinvest, but I see Realty Income is in a big merger with another REIT of which I know little. Your thoughts?
Foster

Dear Foster:
Realty Income is so sound and it is such a dividend machine that it deserves to be an exception to the doctrine of total de-risking. Therefore, it is fine for you to return. The question is one of timing. At $71, the giant retail-property developer and owner commands a high, 30% premium to its net asset value, so its current 4% dividend yield is below its usual 5%. That said, Realty Income's all-stock deal for VEREIT (the offer works to $49 per share of VEREIT, whose NAV is $41) should be a winner. It buys Realty Income more first-class properties with sound tenants in bulk, and for a fair price. The market applauds this "bolt-on" merger; Realty Income's shares are just a hair below their 52-week high.

Dear Jeff:
I am looking at Enbridge, a giant Canadian energy concern. What are your thoughts about this company and the sector?
Robert

Dear Robert:
Energy infrastructure is booming in 2021, and it is time for us to look deeper into the entire business in an upcoming letter. For now, ENB and its well-known peers, such as Energy Transfer, Magellan Midstream and MPLX, are reliable sources of cash flow whose prospects are still on the upswing from the twin depredations of the oil crash and the pandemic. Moody's just upgraded Enbridge's credit, and Enbridge maintained dividends through 2020 and raised them in 2021. Its year-to-date return of 28% is not the sector's best, but it is considered one of the safest pipeline operators. So, go for it—or keep it if you have already been a participant.

What's New in Cash

More partnership conversions. In the past few years, some public master limited energy partnerships have converted to corporations. They reason that the benefits of having a lower cost of capital, being included in broad indexes and not needing to send out investor K-1 documents are worth paying the maximum 21% corporate tax rate. And this trend is not confined to the energy sector. One of our favorite investments, Compass Diversified Income (CODI), is asking its investors to vote in favor of a switchover, starting in September. The result could be a slightly smaller distribution but higher price-earnings and price-to-book multiples, so stick by CODI.

Active funds on a roll. As you know, we are not big fans of index funds, despite their low expense ratios. We prefer individual stocks and bonds and active funds with sharp managers and consistent results. So we got goosebumps when Bank of America reported that 70% of active large-stock funds beat their benchmarks in May, one of the best such showings ever. Standard & Poor's SPIVA still favors passive funds, but it also reports that over the past year, active growth-stock and real estate funds have tended to beat their markers. Our main takeaway: Skip REIT index funds as well as almost all bond index funds.

A counter to inflation mania. If the dollar is indeed losing purchasing power and its reputation as a store of value, you would expect other (real) hard currencies to gain at its expense. Yet UUP, the Invesco Dollar Bullish ETF, is up 0.5% for the year to date, while Invesco's Swiss-franc gadget, FXF, is down 2%. It pays no income, but UUP is usually a safe holding tank, plus a simple and cheap way to back the buck.

Righteous pushback. In May's letter we chided money-management firm GMO for morbidly predicting severe investment losses through 2028. Evidently, we were not alone. GMO has since confessed it has no good rejoinder to those who reminded them that the S&P 500 index is "chock full of great companies" with fine earnings and dividend prospects. GMO now says, "There are no bad assets, only bad prices." Well, some stocks, bonds and funds do trade at record highs. But the grizzlies have a pitiful case, at best, if you ignore the inevitable transitory trading hiccups.

Flashback

We love dividends, both for current yield and for payouts that grow over time, and we seek them everywhere we can. We generally focus on individual stocks, real estate investment trusts and partnerships, but many readers profess more comfort with dividend-oriented funds, whether closed-end funds, exchange-traded funds or regular mutual funds. The celebrity in the category is Vanguard Dividend Growth, with $51 billion in assets and Vanguard's low, 0.26% expenses. It is not literally an index fund, but it is so big and concentrated that it acts like one, with only 41 stocks and positions of $2 billion or so in several companies, including Coca-Cola, Johnson & Johnson and United Health. We have no quarrel with the fund's contents, but indexing is an inferior way to practice BHCG (buy, hold, collect and grow). If you insist on a passive dividend fund, use NOBL, the ProShares ETF that owns the 65 S&P Dividend Aristocrats. We have suggested NOBL as a suitable core holding, with individual stocks as satellites.

Still, when we discuss dividend funds, we look for others that are more creative or more diversified. Experience supports this approach: In June 2019, we headlined our letter "Excellent (and Surprising) Funds for Dividend Growth." To evaluate how they have done, we measured their performance to June 11, 2021, over three periods: from June 1, 2019; from the end of March 2020 (for post-crash bull-market results); and from the start of this year. Our first two listings were prescient: SDVY, the First Trust SMID Cap Rising Dividend Achievers ETF, and KBWR, the Invesco KBW Regional Banking ETF. SDVY's 62.6% June-to-June two-year return trounced Vanguard's 42.1%; KBWR's was about tied, at 41.6%. But since April 1 of last year, those two selections are up 112.1% and 104.1%—twice the return of the aforementioned Vanguard fund, and one-third better than NOBL, the Dividend Aristocrat ETF.

As for regular mutual funds, which do pay respectable current yields to go with growth, we named AMG RiverRoad Dividend All-Cap Value (ARDEX), TCW Relative Value Dividend Appreciation (TGIGX) and T. Rowe Price Dividend Growth (PRDGX). All three have prospered mightily since the market's 2020 trough, and they are also strong this year, returning 17.2%, 22.4% and 12.1% respectively. TCW is better known for bonds than stocks and for caution and deliberation. But this small and opportunistic dividend fund has won us over. This proves that it is often wrong to put a fund company in a style box—and that it pays to cast an extremely wide net in any hunt for excellent and surprising funds.

Model Portfolio: Juiced-Up Cash

Late this winter and early in spring, interest rates on super-low-risk investments looked to be climbing. A five-year Treasury note, which started the year at 0.35%, came within a whisker of 1% on April 2. A two-year T-note, 0.125% in January, charged toward 0.2%. Those moves came before the monthly inflation readings began escalating to the current annualized pace of 4%, a level that in bygone days would petrify bond-desk traders and culminate in screams for the Federal Reserve to rush in and raise short-term interest rates.

But 2021's financial markets refuse to follow that creed, instead trusting that the Fed is still more likely than not to keep its interest-rates frozen throughout 2022 and perhaps into 2023. Yields have duly retreated since April, with the five-year T-note settling at 0.75% on June 11 and the two-year at less than 0.15%. Therefore, income from cash alternatives is still meager and requires you—and us—to think outside the bank and the Treasury. For you do get paid extra for taking minimal credit risk.

That is the framework of Juiced-Up Cash, whose goal is a 2% annualized return, mainly from yield, and without any erosion of the principal. In the period from February 15 through June 11, the hypothetical $50,000 stake stayed flat for all intents and purposes, ending at $49,980, a loss of $20, or six gallons of gasoline. The funds and online savings account pegged at 0.55% generated $214 of income, for a final score of $50,194. Annualized, that is a 1.2% total return, down from the portfolio's 3.5% pace in March's letter and the 4.0% advance in November 2020's review.

Still, because it is impossible to get 1.2% from a bank deposit or from short-term or intermediate-term government securities, that's not terrible. The issue is whether your personal expenses are increasing nearer to that 4% speed. We are not convinced that officially reported inflation will continue to burn at that pace, but everyone is different, and perhaps you are freshly socked with a 10% increase in rent or car insurance. And the markets seem convinced the bump-up is temporary. The Federal Reserve Bank of Cleveland, the go-to inflation monitor among regional Fed banks, posts a long-term inflation expectation of 1.6%, albeit up from 1.3% in March.

If so, the elements of this portfolio should continue to safeguard your principal, and the dividends and interest will produce a positive return. Because the best-performing entry is the Fidelity Floating-Rate Income fund, we are raising our suggested weighting in it from $7,500 to $10,000 and trimming the savings account from $11,250 to $10,000. We are also boosting the RiverPark floating rate mortgage fund from $5,000 to $7,500 and taking $3,750 away from the Northern Ultra-Short fund. These tweaks are a slight tilt toward the floating-rate funds because they may boost their monthly distributions a little more than the others if interest rates should rise. But all our names remain the same.

$10,000 Online savings account. Bankrate says you can still get 0.55%, and so we price it accordingly.

$10,000 Fidelity Floating-Rate Income (FFRHX, $9.47, yield 3.1%) has a year-to-date total return of 3.6% and 10.7% for 12 months, which makes up for some of the others.

$7,500 Northern Ultra-Short Fixed Income (NUSFX, $10.33, 0.7%) has top-shelf corporate credits, but some of the coupons are in the 0.5% range. So, the yield is falling.

$7,500 RiverPark Floating Rate CMBS (RCRFX, $8.95, 1.9%) is holding steady in price and has a one-year total return of more than 5%. The commercial mortgage-backed securities are highly creditworthy.

$5,000 Pimco Enhanced Short Maturity Active ETF (MINT, $102.02, 0.4%) is as safe as Fort Knox, but it has a big bunch of Treasury bills with zero yield. Let us hope for better income by next check-in. If not, we might look elsewhere.

$5,000 PGIM Short-Term Corporate Bond (PBSMX, $11.35, 1.9%) is the most actively managed of the group and has an excellent long-term record for its class. All PGIM funds are keepers.

$5,000 Vanguard Short-Term Bond ETF (BSV, $82.39, 1.2%) has low expenses and lots of AAA-rated assets.