Fight the threat of negative interest rates with these weatherproof investments

Income-seekers can still secure a 5pc yield if they are prepared to be adventurous
By Sam Benstead 13 February 2021 • 5:00am

The Bank of England suggested interest rates could turn negative within six months
Savers looking to draw an income from their investments were dealt another blow last week when the Bank of England announced it could introduce negative rates within six months.
That raises the prospect of savers paying banks to hold their cash and the paltry yields offered by the safest bonds, such as those issued by governments, facing a further squeeze as their prices rise. The yield on two-year British government bond is already negative, while the 10-year bond offers just 0.46pc.

But there are still opportunities for investors to target a 5pc income if they are willing to be a little more adventurous – without taking too much risk. Wealth managers have suggested four ways for investors to fight the threat of negative interest rates and keep income flowing.

Infrastructure

Investment trusts which invest directly in projects such as renewable energy, schools, hospitals, toll roads and energy grids are an excellent source of stable and substantial income for savers.

Jason Hollands, of fund shop Bestinvest, said the income was backed by very long-term contracts, was sometimes underwritten by government partnerships, and could even be linked to inflation, which made it extremely secure.

He recommended the £2.5bn Greencoat UK Wind investment trust, which yields 5.1pc, and £3.3bn HICL Infrastructure, which yields 4.7pc.

However, the catch is that because these funds are in high demand, the shares trade at 19pc premiums to the assets which they own. This means that a jolt to investor confidence could cause share prices to fall.

"High premiums have been a perennial feature of these types of investment companies because investors are willing to pay up for a stable and attractive income stream, especially in times of low yields and economic uncertainty, but they do tick the boxes of high yield and relatively low risk," he said.

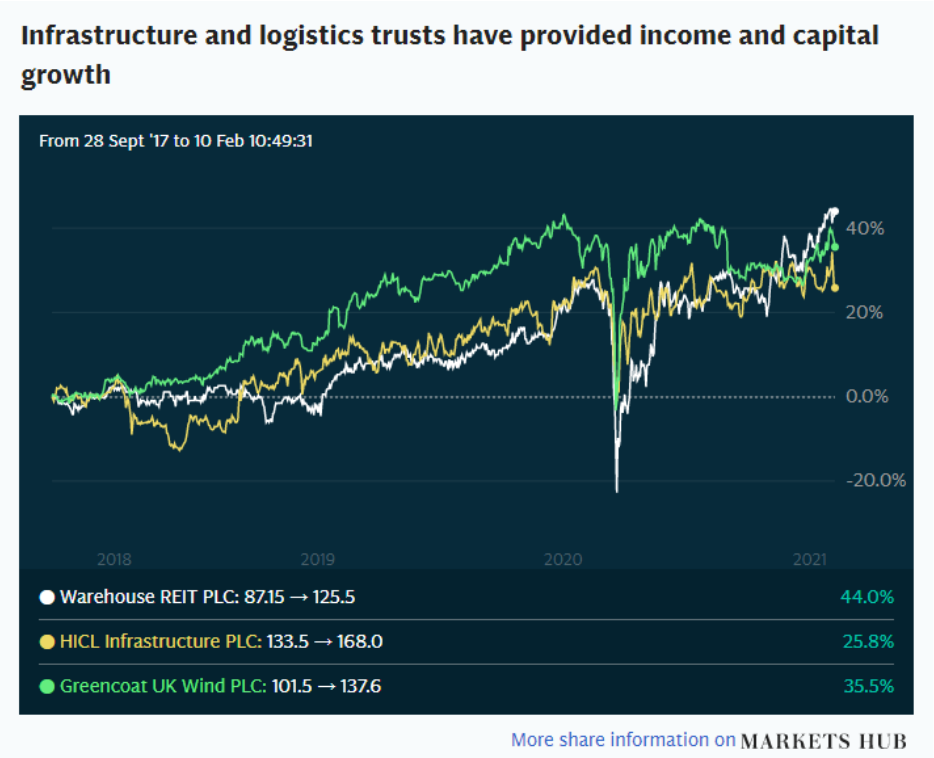
Warehouse funds

Real estate investment trusts (Reits) own physical property and are lauded for their ability to give savers a reliable income, uncorrelated to stock market swings. However, commercial property funds have been hit by declining rents and rising vacancies due to the pressure on the high street and have disappointed investors.

Mr Hollands said the most secure option was to buy "logistics" Reits that owned warehouse space and served the booming e-commerce industry.

"The more secure plays are the specialist logistics Reits which have benefited from the shift to online shopping," he said.

He recommended the £542m Warehouse Reit, which yields 4.9pc. The shares trade at a 9.3pc premium to the trust's assets.



Mortgage investments

Bond yields, which move in the opposite direction to their prices, have been pulled down as interest rates have fallen. The safest options, such as secure "investment grade" corporate bonds or government bonds now struggle to deliver inflation-beating returns.

But investors can branch out into less-known parts of the market to get a much higher yield, without taking on too much risk.

Thomas Becket, of Psigma Investment Management, said funds that invested in asset-backed securities, such as mortgages, could still yield 5pc.

"These are not as 'risky' as the terminology might immediately suggest, with default rates typically very low. They have the added bonus of inflation protection as the mortgages should benefit from ongoing house price appreciation and the income provided is 'floating rate', meaning that if interest rates ever go up then the payments will rise, just as a floating rate mortgage would," he said.

He suggested the £557m TwentyFour Income Fund, an investment trust which invests in European and British asset-backed investments, with a large weighting in mortgages, and yields 5.9pc.

Emerging market bonds

Another high-yielding area is developing world, or "emerging market", bonds, whose companies and governments pay more to borrow as investors consider them higher risk.

However, Mr Beckett argued huge government spending and borrowing by the world's largest economies to tackle the coronavirus pandemic had raised questions over that logic.

"The handling of the Covid crisis in the developed world and Western governments' willingness to destroy any illusion of fiscal sense does not support the idea that their bonds are much lower risk than developing world bonds," he said.

"By comparison, the developing nations have been much more restrained and their bonds still offer comparatively high yields, with default risks still very low," he said.

He recommended the The £670m Fidelity Emerging Market Total Return Debt fund, which invests in government and corporate bonds and yields 6pc.

Funds for a 5pc yield

Fund	Size (£m)	Cost (%)	Yield (%)	Premium (%)	Ticker
Greencoat UK Wind	2,450	1	5.1	19	UKW
HICL Infrastructure	3,280	1.09	4.7	18	HICL
Warehouse REIT	542	1.6	4.9	9.3	WHR
TwentyFour Income Fund	557	0.96	5.95	-3	TFIF
Fidelity Emerging Market Total Return Debt	670	0.93	6	n/a	n/a