CHECKING IN ON THE WISDOMTREE SHORT DURATION FIXED INCOME MODEL

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This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

A little over a year ago, WisdomTree launched its Short Duration Fixed Income Model Portfolio. Given the Fed's current rate hike regime and the corresponding rise in short-term rates, it is time to revisit it.

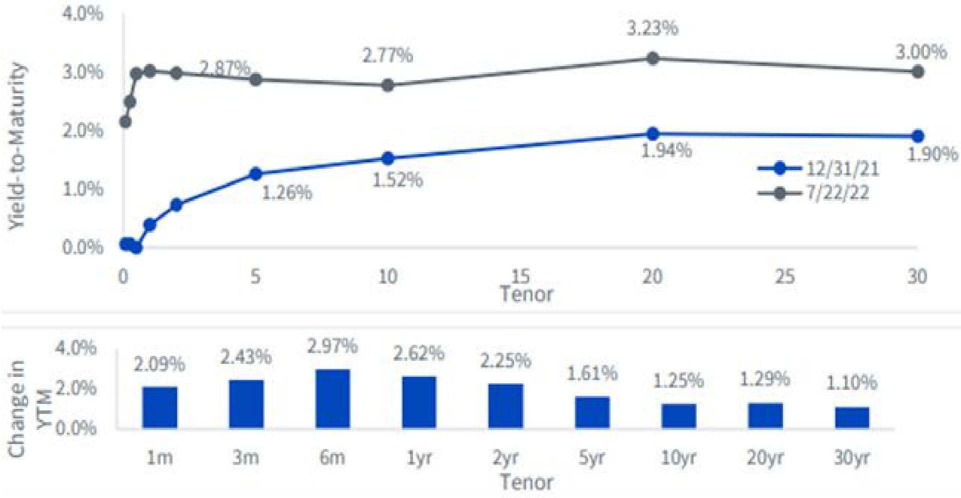
First, let's look at the current duration profile of the U.S. bond market. As a reminder, duration is a measure of the sensitivity of bond prices to changes in interest rates—the longer the duration, the more sensitive. The current duration of the Bloomberg U.S. Aggregate Index is roughly 6.5 years, and that of U.S. Investment Grade Corporates is even longer—almost 8 years. Note as well the duration of the Bloomberg U.S. Treasury Floating Rate Bond index is essentially zero—that is, little to no interest rate risk.

Index Yield to Worst/Modified Duration

Sources: WisdomTree, Bloomberg, data as of 8/09/22. You cannot invest directly in an index and past performance does not guarantee future results.

Now let's look at the current shape of the yield curve. Given current Fed policy, combined with the perception of a slowing economy, we've seen a distinct "flattening" of the yield curve—not much difference between short-term and long-term rates. In fact, there has been inversion at certain points of the curve.

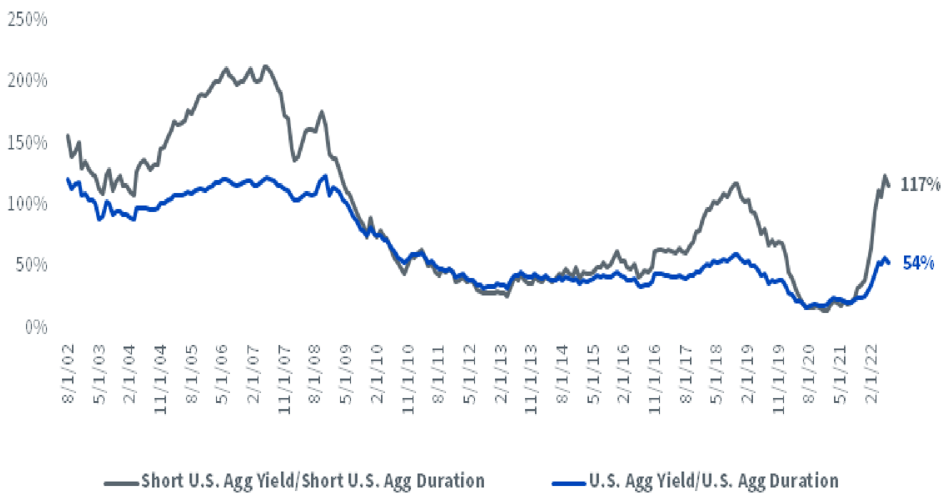
Treasury Yield Curve



Sources: WisdomTree, FactSet, Bloomberg, as of 8/09/22.

Finally, look at the trade-off between potential returns and duration, that is, how much an investor is being paid to take on duration risk. We see a very interesting situation right now—shorter maturity securities are currently providing yields greater than their duration. Put differently, investors are being paid more return per unit of duration risk at the short end of the curve than at the long end.

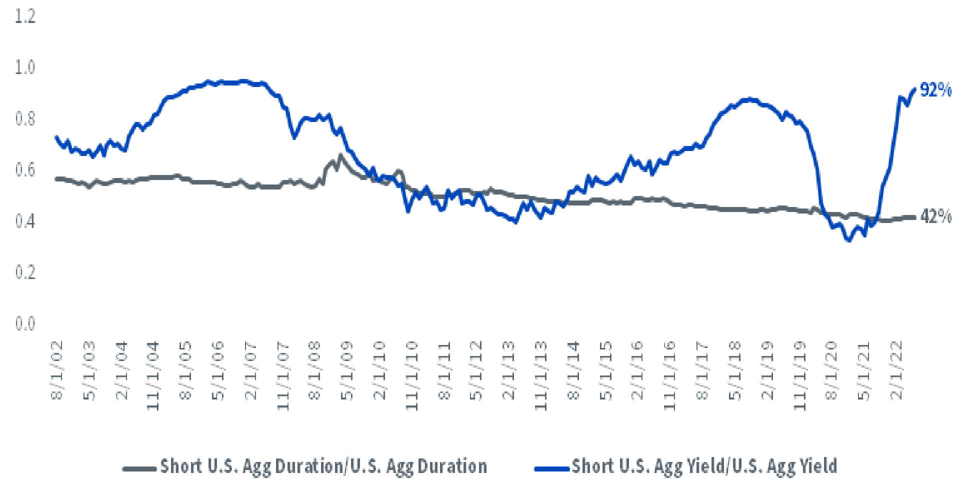
Yield & Duration Trade-Offs for Short Aggregate vs. U.S. Aggregate



Sources: WisdomTree, Bloomberg, data through 7/29/22. You cannot invest in an index and past performance does not guarantee future results. Short Aggregate: represents a subset of securities in the Bloomberg U.S. Aggregate Index with maturities between 1 and 5 years.

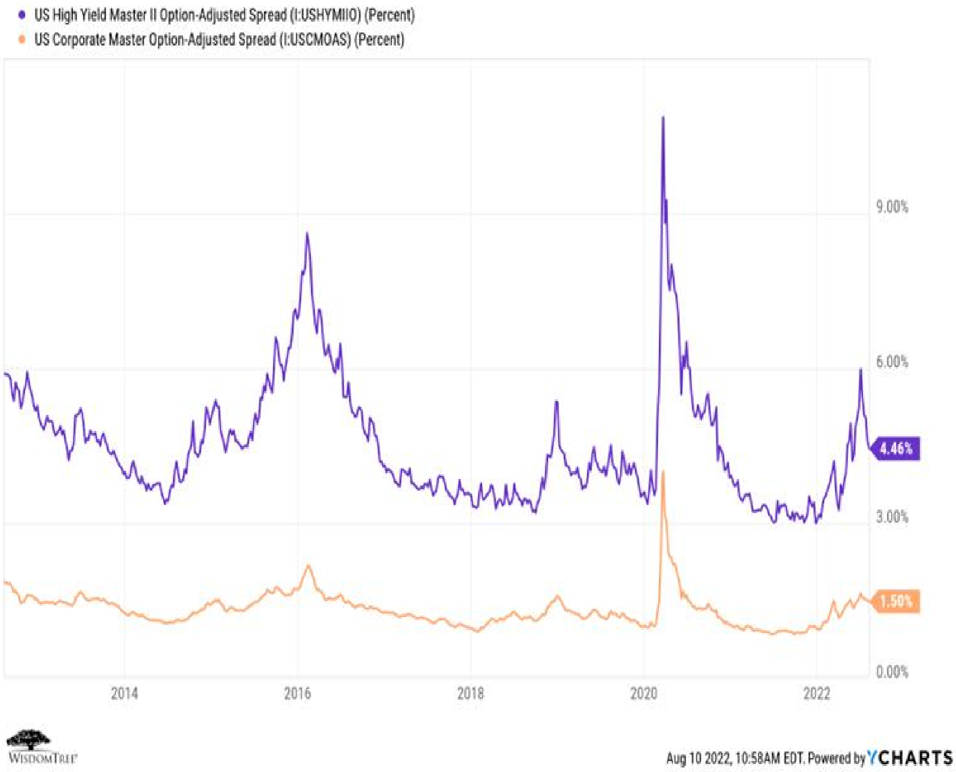
Looked at from a different perspective, in the current environment an investor can generate, at the short end of the curve, more than 90% of the yield of the broad Bloomberg U.S. Aggregate Index, while taking only 42% of the duration risk.

Yield/Duration for Short Aggregate & U.S. Aggregate



Sources: WisdomTree, Bloomberg, data through 7/29/22. You cannot invest in an index and past performance does not guarantee future results.

Meanwhile, [credit spreads](#) have widened, meaning investors are once again being paid to take on [credit risk](#). There has been a notable retracement over the past few weeks, especially in high yield spreads, but they remain higher than at any time since June 2020.



Source: YCharts, 10-year data through 8/09/22. You cannot invest in an index and past performance does not guarantee future results.

Why the WisdomTree Short Duration Fixed Income Model Makes Sense Right Now

All of this is to provide context for why our Short Duration Fixed Income Model Portfolio may make sense for many investors seeking to generate [quality](#) income without taking unwanted interest rate risk.

We intentionally made the Model Portfolio simple and inexpensive—we currently allocate to five strategies that provide diversification across sectors while maintaining a low duration profile.

WisdomTree Short Duration Fixed Income Model Portfolio

1.96%	0.26%	05/31/2021	100%
Model 12-Month Dividend Yield (As of 07/31/2022)	Model Expense Ratio	Inception date	Fixed Income

Model Performance | Model Allocations | Model Exposures | Fund Performance | Fund Details

Ticker	Name	Target Allocations (As of 7/31/2022)
Fixed Income		**100.0%**
SHAG	WisdomTree Yield Enhanced U.S. Short-Term Aggregate Bond Fund	30.0%
HYZD	WisdomTree Interest Rate Hedged High Yield Bond Fund	25.0%
SFIG	WisdomTree U.S. Short-Term Corporate Bond Fund	20.0%
MTGP	WisdomTree Mortgage Plus Bond Fund	15.0%
USFR	WisdomTree Floating Rate Treasury Fund	10.0%

Allocations and target weights are subject to change.

Source: WisdomTree Model Adoption Center, as of 7/31/2222. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Model Portfolio performance results shown are theoretical and do not reflect any investor's actual experience with owning, trading or managing an actual investment. Thus, the performance shown does not reflect the impact that economic and market factors had or might have had on decision making if actual investor money had been managed and allocated per the Model Portfolio. Actual performance achieved in seeking to follow the Model Portfolio may differ from the theoretical performance shown for a number of reasons, including the timing of implementation of trades (including rebalancing trades to adjust to Model Portfolio changes), market conditions, fees and expenses (e.g., brokerage commissions, deduction of advisory or other fees or expenses charged by advisors or other third parties to investors, strategist fees and/or platform fees), contributions, withdrawals, account restrictions, tax consequences, and/or other factors, any or all of which may lower returns. While Model Portfolio performance may have performed better than the benchmark for some or all periods shown, the performance during any other period may not have, and there is no assurance that Model Portfolio performance will perform better than the benchmark in the future. Model Portfolio performance calculations assume reinvestment of dividends, are pre-tax and are net of fund expenses.

ETF shares are bought and sold at market price (not NAV) and are not individually redeemable from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Model 12-month yield is calculated using the weighted average trailing 12-month distribution yields of the Fund constituents. Funds incepted less than 12 months ago do not have a trailing 12-month dividend yield. Model expense ratio refers to the weighted average expense ratios of the Fund constituents.

Please go to https://www.wisdomtree.com/mac/model-portfolios#strategicmodelportfolios_strategicbuildingblocks and see the Model Performance tab for standardized Model performance. See the Fund Performance tab for individual Fund standardized performance, and see the Fund Details tab for Fund-specific links for yield, most recent month-end performance, expense ratios and a prospectus.

For most recent month-end and standardized performance of the Models and underlying Funds, please click here.

1. **SHAG** is our Yield Enhanced U.S. Short-Term Aggregate Bond Fund, which seeks to provide enhanced quality income while tracking the performance of the Bloomberg U.S. Short-Term Aggregate Bond index.
2. **HYZD** is our Interest Rate Hedged High Yield Bond Fund, which seeks to capture higher quality, high yield income while minimizing interest rate risk.
3. **SFIG** is our U.S. Short-Term Corporate Bond Fund, which seeks to generate higher quality income while tracking the Bloomberg U.S. Short-Term Aggregate Bond index.
4. **MTGP** is our Mortgage Plus Bond Fund, which attempts to generate high quality income in a risk-controlled manner via the mortgage-backed and other securitized debt sectors.

5. USFR is our Floating Rate Treasury fund, which pegs its coupon to the weekly auction of 2-Year U.S. Treasury Bills. It essentially has minimal duration or credit risk, and benefits from a rising short-term rate environment, such as we are currently experiencing.

Unlike all other WisdomTree Model Portfolios, this one is “closed architecture” and contains only WisdomTree strategies. We did this intentionally to (a) keep the number of line-item allocations to a minimum, (b) provide a diversified exposure across a variety of fixed income strategies and sectors and (c) keep the cost low.

The Portfolio has not been immune to the market environment this year. Its year-to-date total return performance through July 31st is –4.27% at NAV (far better than the Bloomberg Aggregate index performance of –9.12%).[1]

But the primary mandate of the Portfolio is to generate enhanced quality income within a low duration profile, and it is succeeding in doing so. While maintaining a duration of less than half of the Bloomberg Aggregate index (2.58 years versus roughly 6.5 years), the Portfolio is generating a comparable level of yield. A different way of saying this is that an investor is being paid more yield per unit of duration risk in this Portfolio than the broader Bloomberg bond index.

Conclusions

We believe the current and expected future rate environment will be marked by rising rates, increased volatility and a much flatter yield curve regime. With this backdrop, investors should be cautious about taking on duration risk in search of higher yields.

Our short-duration fixed income Model may potentially be part of the solution. It can help reduce interest rate risk while generating levels of yield that are close to broad market index levels. If the Fed continues its rate hike regime and the economy continues to slow (a strange mix of events, we acknowledge, but that seems to be where we are), this Portfolio should only increase in attractiveness for investors seeking risk-controlled yield while maintaining the overall portfolio diversification benefits of a fixed income allocation.

You can learn more at our Model Adoption Center. We hope you will take a look.

[1] Click here for average total returns of the Portfolio.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer’s ability to make such payments will cause the price of that bond to decline. Investing in mortgage- and asset-backed securities involves interest rate, credit, valuation, extension and liquidity risks and the risk that payments on the underlying assets are delayed, prepaid, subordinated or defaulted on. High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Please read the Funds' prospectus for specific details regarding the Funds' risk profile.

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For the top 10 holdings of HYZD please visit the Fund's fund detail page at https://www.wisdomtree.com/investments/etfs/fixed-income/hyzd

For the top 10 holdings of QSIG please visit the Fund's fund detail page at https://www.wisdomtree.com/investments/etfs/fixed-income/qsig

For the top 10 holdings of SHAG please visit the Fund's fund detail page at https://www.wisdomtree.com/investments/etfs/fixed-income/shag

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For the top 10 holdings of USFR please visit the Fund's fund detail page at https://www.wisdomtree.com/investments/etfs/fixed-income/usfr

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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+ Introducing the WisdomTree Short Duration Fixed Income Model

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+ WisdomTree U.S. Short-Term Corporate Bond Fund
+ WisdomTree Floating Rate Treasury Fund

View the online version of this article here.

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You cannot invest directly in an index.

DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Bond market : The bond market—often called the debt market, fixed-income market, or credit market—is the collective name given to all trades and issues of debt securities. Governments typically issue bonds in order to raise capital to pay down debts or fund infrastructural improvements.

Bloomberg Aggregate Bond Index : The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

Interest rate risk : The risk that an investment's value will decline due to an increase in interest rates.

Yield curve : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

Inverted Yield Curve : An interest rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality.

Credit spread : The portion of a bond's yield that compensates investors for taking credit risk.

Credit risk : The risk that a borrower will not meet their contractual obligations in conjunction with an investment.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.