WHAT TRUMP'S HISTORIC UPSET COULD MEAN FOR YOUR FIXED INCOME STRATEGIES

Ambar Bajaj – Senior Solutions Specialist – ETF Model Portfolios
11/15/2016

Election 2016 On November 9, Americans woke up to their morning coffee and paper, and the headlines painted the picture of what had transpired the night prior: the greatest political upset in modern U.S. history. Donald Trump was elected the 45th president of the United States. Even more surprising to some was that Republicans also were able to hold on to their majorities in both the House and the Senate. This is the first time since 2007, during George W. Bush's first 4.5 years in office, that the White House, House and Senate were occupied/controlled by the Republicans. With changes coming in the judicial system with key nominations to the Supreme Court at stake, this influence can grow even larger, and for longer, as time goes on.

During the election coverage, we saw the Dow Jones Industrial Average futures drop as much as 800+ points as Trump's probability of victory grew when he continued to pick up key swing states such as Florida, Ohio, North Carolina, Wisconsin and eventually the final blow to the Clinton campaign, Pennsylvania. Shockingly, all the losses were reversed the morning after. In fact, the equity markets were up about 1.5% across the major indexes, and the U.S. 10-year yield was also above 2% for the first time since the beginning of the year. As reality slowly sets in for the global markets, investors are left wondering how the whirlwinds of political uncertainty in the next few months and years will affect their short-term and long-term positions. With volatility expected to continue through Trump's presidency, those invested in the fixed income markets, both at home and abroad, should be aware of what a Trump victory could mean for their positions moving forward.

Setting aside what a Trump victory could mean for the social morale of the country, his presidency may have some positive economic effects, namely through tax cuts and infrastructure. While infrastructure spending is a commonality between both candidates' policy agendas, Trump's comes paired with tax cuts, which could act as a "steroid" to the markets and, in turn, could extend the bull market and potentially take it to new highs.

However, if he fails to follow through on his campaign promises, or if his approved policies don't have a positive effect, investors may see larger deficits and more debt. In addition, his protectionist policies could have the effect of slowing global trade and adding U.S. dollar volatility as prices for imports increase.

Interest Rate Direction and What It Could Mean for Investors' Portfolios

Regarding the Federal Reserve (Fed)'s decision and the interest rate hikes, many people would likely agree that the pace of interest rate hikes is one of the most important factors in the Fed's impact on the markets. Markets may react quite negatively to an aggressive rate hike path, given that we are in no way experiencing a booming U.S. or global economy, with very moderate inflation. And as we've seen this year, gradual increases with tempered language don't have to be a hindrance to performance.

In the steady growth environment, where we see the pace of interest rates rise steadily—such as two hikes over the next 12 months, as we believe may be the case—we'll likely see a gradual adjustment to the policy. In this environment, investment-grade credit

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should continue to fare well. A fund such as the WisdomTree Barclays U.S. Aggregate Bond Enhanced Yield Fund (AGGY) could provide the appropriate exposure for this environment. AGGY seeks to track the price and yield performance, before fees and expenses, of the Bloomberg Barclays U.S. Aggregate Enhanced Yield Index. The Fund seeks to enhance the income potential by sourcing opportunities within the Index. By using a rules-based approach, the Fund reweights the subcomponents of the Index to enhance yield, while broadly maintaining familiar risk characteristics, setting it up for an ideal core fixed income allocation, in our view. Shifting weights within the Bloomberg Barclays U.S. Aggregate Bond Index (Agg) toward higher-yielding sectors, while maintaining constraints that rein in differences and tracking error to the Agg, is especially useful as most fixed income portfolios are benched to the Agg. In addition, this strategy has historically provided 50–60 basis points of additional yield over the benchmark, while remaining 100% investment grade, which appeals to those hungry for yield in the investment-grade space. For standardized yields for AGGY, click here.

In a risk-on, bull-market scenario, investors would likely see rates hiked at a steady pace, but they would also likely see high-yield bonds perform well. With the recent market pullback, high-yield bonds could be an attractive asset class to watch as a timely entry point. Given that bonds are typically interest-rate sensitive, investors have the option to enter into a duration-hedged high-yield portfolio via the WisdomTree BofA Merrill Lynch High Yield Bond Zero Duration Fund (HYZD). The Fund seeks to track the price and yield performance, before fees and expenses, of the BofA Merrill Lynch 0-5 Year US High Yield Constrained, Zero Duration Index. By utilizing an institutional approach that combines long positions in bonds representative of the Index with short positions in Treasury securities, the Fund is able to target zero duration, thus potentially reducing the interest rate risk of the overall portfolio while seeking to supplement income yields.

Interest rate decisions by the Fed and policies enacted by the U.S. government will likely have implications on fixed income returns. Using AGGY and HYZD strategically to enhance yields or mitigate certain risks could help customize portfolios to better serve investors during these uncertain environments.

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. The HYZD Fund seeks to mitigate interest rate risk by taking short positions in U.S. Treasuries, but there is no guarantee this will be achieved. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions.

The HYZD Fund may engage in “short sale” transactions where losses may be exaggerated, potentially losing more money than the actual cost of the investment and the third party to the short sale may fail to honor its contract terms, causing a loss to the Fund. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund’s portfolio investments.

Due to the investment strategy of certain Fund’s they may make higher capital gain distributions than other ETFs. Please read each Fund’s prospectus for specific details regarding each Fund’s risk profile.

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U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

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You cannot invest directly in an index.

DEFINITIONS

Dow Jones Industrial Average : The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Futures/Futures Contract : Reflects the expected future value of a commodity, currency or Treasury security.

10- Year Treasury : a debt obligation of the U.S. government with an original maturity of ten years.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Bullish : a position that benefits when asset prices rise.

Real interest rate : Interest rate accounting for the impact of inflation. From the nominal interest rate, which does not account for the impact of inflation, the rate of inflation is subtracted to get to the real interest rate.

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.

Inflation : Characterized by rising price levels.

Investment grade : An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

Credit : A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future.

Bloomberg Barclays U.S. Aggregate Enhanced Yield Index : a constrained, rules-based approach that reweights the sector, maturity, and credit quality of the Barclays U.S. Aggregate Index across various sub-components in order to enhance yield.

Bloomberg U.S. Aggregate Bond Index : Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage and asset backed securities.

Yield To Maturity : Portfolio Yield to Maturity represents the weighted average yield to maturity of a Fund’s investments in money market securities and fixed income securities as a specified date. Yield to maturity is the rate of return generated on these securities, assuming interest payments and capital gains or losses as if the instrument is held to maturity. The weighted average yield is calculated based on the market value of each security. The calculation does not incorporate yield from any derivative instruments that are part of the Fund’s investments.

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.

Hedge : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

BofA Merrill Lynch 0-5 Year US High Yield Constrained, Zero Duration Index : Tracks the performance of the combination of a long position in short maturity US high yield bonds and a short position in on the run US Treasuries where the net interest rate exposure of the index is adjusted to a zero year duration. Market values of long and short positions are rebalanced at month-end.