UNLOCKING VOLATILITY HEDGES FOR EQUITY MARKETS

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As the economic cycle ages, fears of equity market drawdowns and the need for hedges are discussed more often.

Some investors see challenges to hedging, often pointing to bond yields that are negative after inflation and concerns over "expensive" equities.

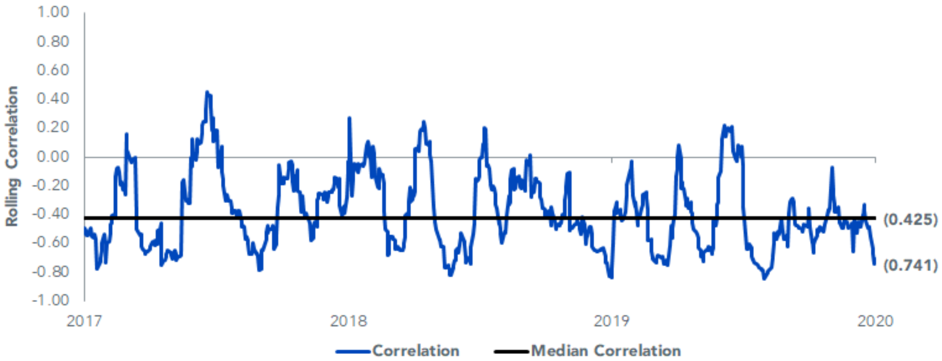
But we increasingly believe interest rates are going to stay low for longer.

Our Senior Investment Strategy Advisor, Professor Jeremy Siegel, believes bonds have increasingly become the "negative beta" defensive hedge asset of choice.

We see this on days when stocks are volatile: interest rates tend to go down (which means bond prices climb higher).

We tip our hat to the *Wall Street Journal's* Daily Shot email, which recently published a chart showing that bonds' inverse correlation to stocks is about as strong as it's ever been. We recreated it using index-level data below to illustrate the point.

20-Day Correlation: S&P 500 Index vs. ICE U.S. Treasury 7-10 Index



Sources: WisdomTree, Bloomberg, for the period 1/31/17–1/31/20. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of terms in the chart, please visit our glossary.

A Late-Cycle Solution

In August 2018, we launched the WisdomTree 90/60 U.S. Balanced Fund (NTSX) to capitalize on this phenomenon.

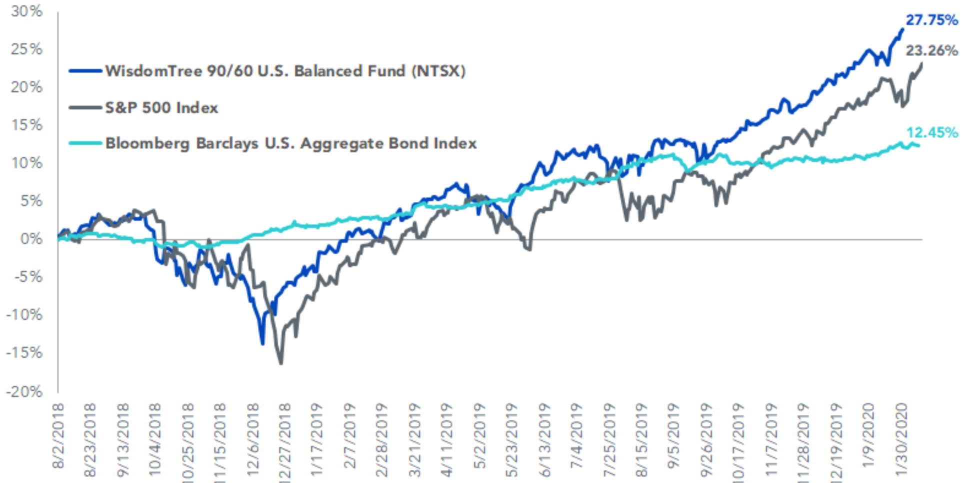
For every $100 invested in NTSX, the fund has $90 of equity exposure and $10 of U.S. dollar-denominated collateral combined, plus $60 of bond futures[1] exposure.

We believe the negative correlation bond trend adds to the total diversification NTSX provides compared to a traditional 100% equity fund.

The roots of this portfolio approach go back a quarter century, when Cliff Asness first wrote about a levered 60/40 offering better diversification and more return potential th an a 100% equity position.

While there are decades of historical research on this topic, the 1.5+ year live track record for NTSX shows how the Fund can add value.

Cumulative Returns of NTSX vs. Stocks & bonds: 8/2/18–2/12/20



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. Performance data for the most recent month-end is available at wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed 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.

You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

For standardized performance of NTSX, please click here.

Have Your Cake, and Eat It Too

Without much in the way of real return, the primary role of bonds is to hedge against stocks. We believe the negative-beta hedging characteristic that bonds offer further strengthens the case for NTSX as a substitute for pure equity beta today.

[1]Bond futures refers to a contract that reflects the expected future value of the underlying instrument, which in this case is the price of U.S. Treasuries.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. While the Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models, and the models may not perform as intended. Equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. The Fund invests in derivatives to gain exposure to U.S. Treasuries. The return on a derivative instrument may not correlate with the return of its underlying reference asset. The Fund's use of derivatives will give rise to leverage, and derivatives can be volatile and may be less liquid than other securities. As a result, the value of an investment in the Fund may change quickly and without warning, and you may lose money. Interest rate risk is the risk that fixed income securities, and financial instruments related to fixed income securities, will decline in value because of an increase in interest rates and changes to other factors, such as perception of an issuer's creditworthiness. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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.

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

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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

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.

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.

Inflation : Characterized by rising price levels.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

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

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.