

GENERATING YIELD IN A VOLATILE MARKET, CONTINUED

Scott Welch – Chief Investment Officer, Model Portfolios, Kevin Flanagan – Head of Fixed Income Strategy
06/16/2022

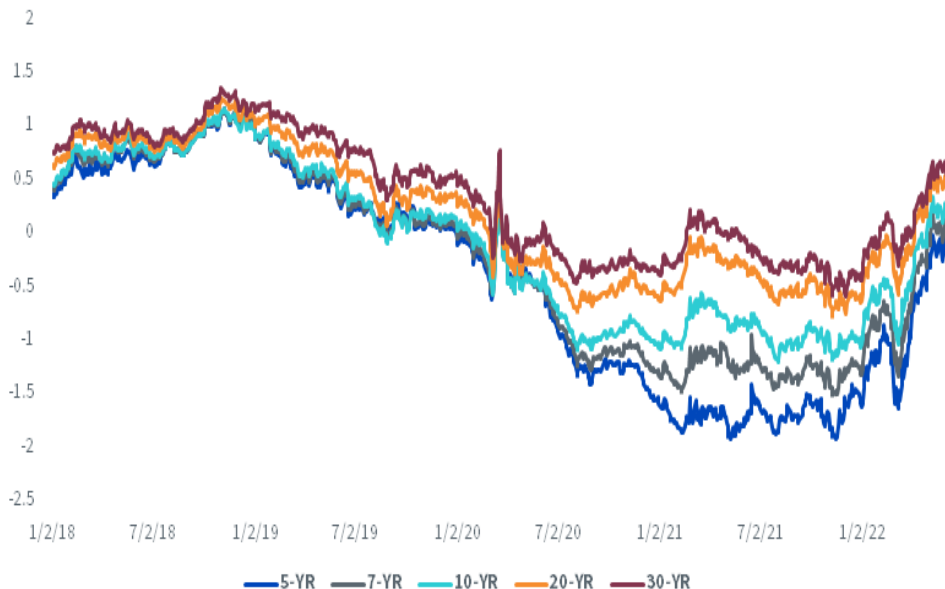
This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model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

It has been a little more than two months since we last visited the topic of [generating yield in a volatile market](#), but market conditions continue to evolve, so it is time to visit it again. The Fed seemingly remains on its fairly aggressive “[rate hike](#) regime” and has now added “[quantitative tightening](#)” as it begins to reduce its [balance sheet](#). It will continue to walk a proverbial tightrope as it attempts to balance economic growth against high [inflation](#). Right now, fighting inflation is the primary concern, but the Fed suggests it will be “data dependent” as we move through the summer.

So, with rates and [credit spreads volatile](#) and the stock market in a swoon, how best to navigate generating reasonable yield in this environment?

Let’s start with the [Treasury yield curve](#). In the wake of the Fed’s current policy, real Treasury rates have now risen visibly above zero across the entire [maturity](#) spectrum. This is meaningful when evaluating fixed income investments—investors are no longer locking in a guaranteed loss of purchasing power if they buy longer-dated Treasuries.

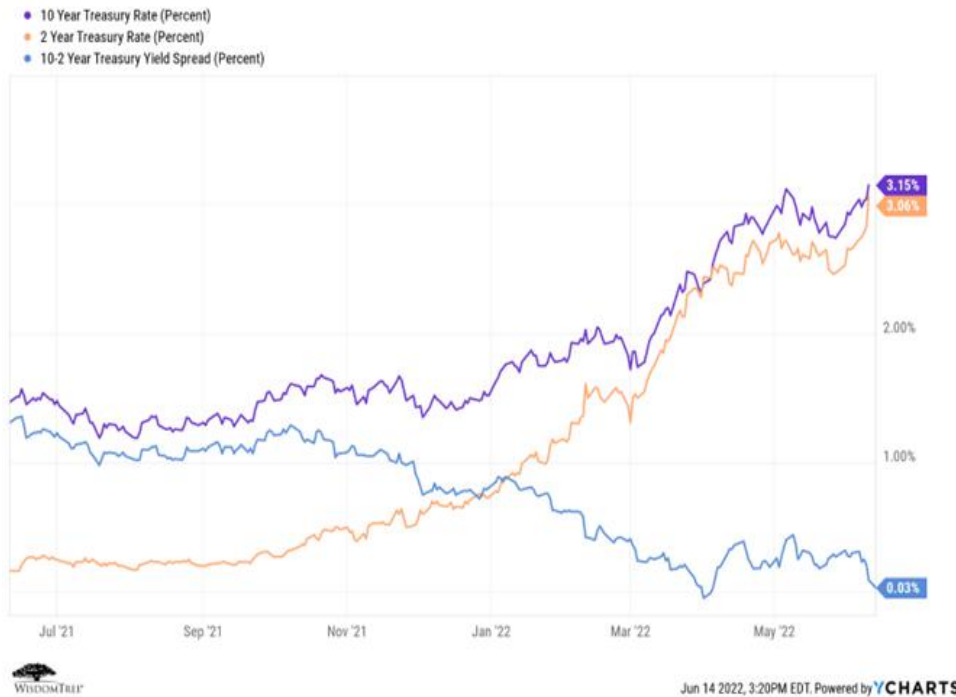
U.S. Treasury Real Yields



Source: Treasury.gov, data through 6/13/22. Past performance does not guarantee future results.

[Nominal Treasury](#) rates have also been rising, with the short end rising sharply in the face of the Fed’s tightening program. The market got “jittery” in late March when the

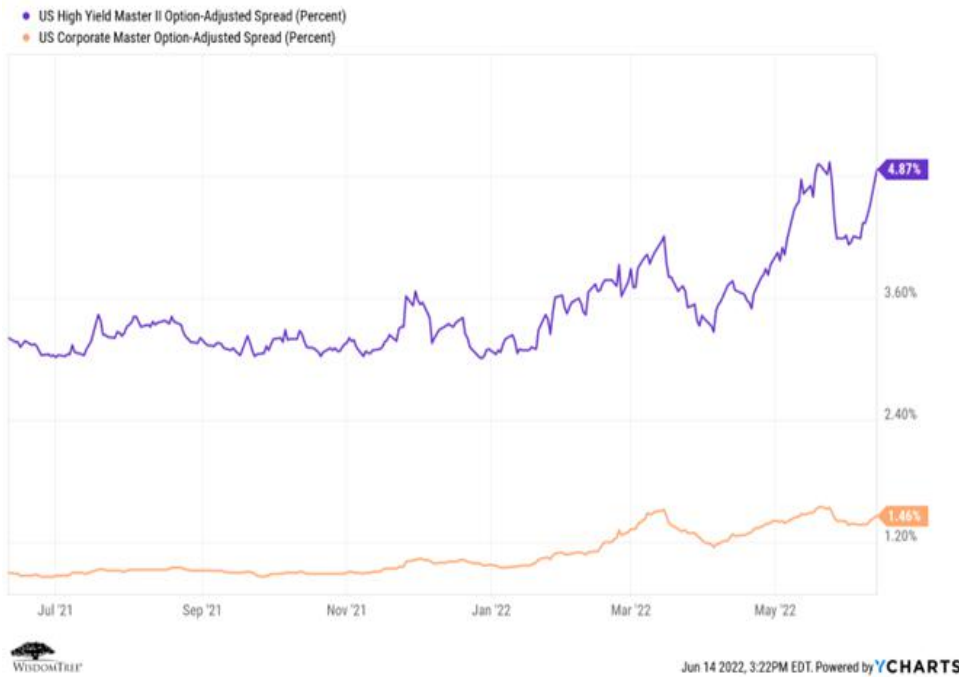
yield [curve inverted](#) for a day or two, and those fears resurfaced over the past week or so as the yield curve flattened again. We think, with fits and starts, this upward rate trend will continue, with the caveat that, should the market perceive the Fed is being too aggressive and is correspondingly shutting down the economy, we may see a new decline. The Fed seemed “locked in” to 50-[basis-point \(bps\)](#) hikes this summer, but the most recent CPI print of 8.6% proved to be the catalyst for a more aggressive stance, pushing fed funds up by a historically high move of 75bp at the June FOMC meeting.



Source: YCharts, 12-month data through 6/13/22. You cannot invest in an index, and past performance does not guarantee future results.

Our “house view” is that (a) inflation may be peaking but likely will be “sticky” for some time to come, and (b) the Fed is somewhat between a rock and a hard place right now but combatting inflation is its primary objective, perhaps even at the expense of economic growth in the second half of the year.

Finally, volatility in credit spreads has increased—a trend we expect to continue as we head into uncertain economic and inflationary times.



Source: YCharts, 12-month data as of 6/13/22. You cannot invest in an index, and past performance does not guarantee future results.

For definitions of terms in the table, please visit the [glossary](#).

What Is a Yield-Seeking Investor to Do?

This is not an easy time to find reasonable risk-adjusted yield in the fixed income markets, though pockets of relative opportunity should appear from time to time. At this point, we do not recommend taking on additional duration or credit risk in a “reach” for yield, though our views on duration may evolve as we move through the summer.

What about finding yield in the equity markets? Using the information from above, let’s compare current nominal fixed income yields to current equity dividend yields.

Instrument	10-Year Treasury	Investment-Grade Credit Spread	High-Yield Credit Spread	Total Nominal Current Yield
IG Bonds	3.15%	1.46%		4.61%
HY Bonds			4.87%	8.02%
S&P 500 Dividend Yield				1.51%
ACWI ex-U.S. Dividend Yield				3.91%

Sources: YCharts, S&P and MSCI, data through 6/13/22. Yields are approximate and security-specific. “IG” stands for “investment grade” and refers to bonds with a BBB- or higher credit rating. Investment-grade bonds are represented by the Bloomberg U.S. Aggregate Bond Index (the “AGG”). “HY” stands for “high yield” and refers to bonds with a credit rating below BBB-. High-yield bonds are represented by the Bloomberg U.S. Corporate High Yield Bond Index. You cannot invest in an index, and past performance does not guarantee future results.

For definitions of terms in the table, please visit the [glossary](#).

We are starting to see more “normalized” fixed income yields, and available data suggest corporate balance sheets are in good shape. So, while the total return picture may not be overly optimistic, “coupon clippers” may find solace in today’s market environment.

Our own fixed income Model Portfolios remain short duration and over-weight in credit, with a focus on quality security selection, compared to the [Bloomberg U.](#)

[S. Aggregate Bond Index \(the “AGG”\)](#). We are not looking to take excessive risk in our fixed income portfolios in a “reach for yield.”

Here are some other ideas and solutions that may be of interest.

Product/Strategy Ideas

Within the fixed income universe, the rise in yields thus far in 2022 has altered the backdrop for income-focused investors. Questions surrounding duration remain and will more than likely continue for the second half of this year and into 2023.

Given this uncertainty, investors may want to consider a barbell approach to fixed income investing. Our “in-house” barbell consists of the [WisdomTree Yield Enhanced U.S. Aggregate Bond Fund \(AGGY\)](#) at one end and the [WisdomTree Floating Rate Treasury Fund \(USFR\)](#) as the other “weight.” This barbell offers a core strategic solution designed to help fixed income investors navigate the uncharted waters ahead without making a high-conviction bet on where Treasury yields may ultimately be headed.

Model Portfolio Ideas

WisdomTree manages three Model Portfolios that we think fit nicely into today’s yield environment, depending on investor objectives:

1. The **Global Dividend** model is an all-equity model designed specifically to generate optimal yield and current income without taking excessive risk. This can be used as a stand-alone model, but many advisors use it as a complementary sleeve to their existing equity portfolios in an attempt to generate additional income.
2. The **Global Multi-Asset Income** model attempts to optimize risk-controlled current yield and income. In addition to equities, it includes fixed income and other yield-generating strategies (e.g., preferred securities and energy master limited partnerships (MLPs)).
3. The **Siegel-WisdomTree Longevity** model, built and managed in collaboration with our since-inception Strategic Advisor, Professor Jeremy Siegel. This model attempts to “build a better mousetrap” to the traditional “60/40” portfolio by over-weighting in yield and dividend-focused equities (75% allocation) while using the fixed income allocation (25%) as a source of risk-controlled income and a hedge to the equity risk of the overall portfolio.

These three models focus on generating all or much of the current yield from the *equity* allocations versus the fixed income allocations.

Let’s look at the current yield of these portfolios (as of May 31, 2022). “Current Yield/Income” refers to the most recently posted 12-month dividend yield.

Portfolio	Current Yield/Income
Siegel-WisdomTree Longevity	3.50%
Global Dividend	3.34%
Global Multi-Asset Income (Moderate Aggressive)	3.67%

Sources: WisdomTree and FactSet, as of 5/31/22. Past performance does not guarantee future results. “Current Yield/Income” refers to the 12-month dividend yield, as posted on our Model Adoption Center.

Now let’s examine some hypothetical “typical” client portfolios.

Portfolio	Current Yield/Income
60% S&P 500 / 40% IG Bonds	2.75%
40% S&P 500 / 20% ACWI ex-U.S. / 40% IG Bonds	3.23%
60% S&P 500 / 30% IG Bonds / 10% HY Bonds	3.09%
40% S&P 500 / 20% ACWI ex-U.S. / 30% IG Bonds / 10% HY Bonds	3.57%
Siegel-WisdomTree Longevity Model	3.50%
Global Dividend Model	3.34%
WisdomTree Global Multi-Asset Income Model (Moderate Aggressive)	3.67%

Sources: YCharts, WisdomTree and FactSet, hypothetical models through 6/13/22; WisdomTree models through 5/31/22. "IG" stands for "investment grade" and refers to bonds with a BBB- or higher credit rating. Investment-grade bonds are represented by the

Conclusions

We are approaching a more "normal" market environment, where investors can generate respectable yield out of their fixed income portfolio. While this is a reversal of market conditions in the past two years, it actually represents a more historical environment. There are products and strategies, as discussed above, that have the potential to generate reasonable risk-adjusted yields and performances.

At the same time, we still believe another approach is to focus on the global equity markets to generate yield while still maintaining an adequate fixed income allocation, both for income generation and as a hedge to equity beta risk.

In today's yield-starved world, we believe you can build intelligent portfolios that generate an acceptable level of risk-adjusted yield without taking excessive risk.

You can get all the details on our individual strategies and our Model Portfolios on the [WisdomTree website](#).

Important Risks Related to this Article

For retail investors: wisdomTree's Model Portfolios are not intended to constitute investment advice or investment recommendations from wisdomTree. Your investment advisor may or may not implement wisdomTree's Model Portfolios in your account. The performance of your account may differ from the performance shown for a variety of reasons, including but not limited to: your investment advisor, and not wisdomTree, is responsible for implementing trades in the account; differences in market conditions; client-imposed investment restrictions; the timing of client investments and withdrawals; fees payable; and/or other factors. wisdomTree is not responsible for determining the suitability or appropriateness of a strategy based on wisdomTree's Model Portfolios. wisdomTree does not have investment discretion and does not place trade orders for your account. This material has been created by wisdomTree, and the information included herein has not been verified by your investment advisor and may differ from the information provided by your investment advisor. wisdomTree does not undertake to provide impartial investment advice or give advice in a fiduciary capacity. Further, wisdomTree receives revenue in the form of advisory fees for our exchange-traded Funds and management fees for our collective investment trusts.

For financial advisors: wisdomTree Model Portfolio information is designed to be used by financial advisors solely as an educational resource, along with other potential resources advisors may consider, in providing services to their end clients. WisdomTree's Model Portfolios and related content are for information only and are not intended to provide, and should not be relied on for, tax, legal, accounting, investment or financial planning advice by wisdomTree, nor should any wisdomTree Model Portfolio

information be considered or relied upon as investment advice or as a recommendation from WisdomTree, including regarding the use or suitability of any WisdomTree Model Portfolio, any particular security or any particular strategy. In providing WisdomTree Model Portfolio information, WisdomTree is not acting and has not agreed to act in an investment advisory, fiduciary or quasi-fiduciary capacity to any advisor or end client, and has no responsibility in connection therewith, and is not providing individualized investment advice to any advisor or end client, including based on or tailored to the circumstance of any advisor or end client. The Model Portfolio information is provided “as is,” without warranty of any kind, express or implied. WisdomTree is not responsible for determining the securities to be purchased, held and/or sold for any advisor or end client accounts, nor is WisdomTree responsible for determining the suitability or appropriateness of a Model Portfolio or any securities included therein for any third party, including end clients.

Advisors are solely responsible for making investment recommendations and/or decisions with respect to an end client and should consider the end client’s individual financial circumstances, investment time frame, risk tolerance level and investment goals in determining the appropriateness of a particular investment or strategy, without input from WisdomTree. WisdomTree does not have investment discretion and does not place trade orders for any end client accounts. Information and other marketing materials provided to you by WisdomTree concerning a Model Portfolio—including allocations, performance and other characteristics—may not be indicative of an end client’s actual experience from investing in one or more of the funds included in a Model Portfolio. Using an asset allocation strategy does not ensure a profit or protect against loss, and diversification does not eliminate the risk of experiencing investment losses. There is no assurance that investing in accordance with a Model Portfolio’s allocations will provide positive performance over any period. Any content or information included in or related to a WisdomTree Model Portfolio, including descriptions, allocations, data, fund details and disclosures, is subject to change and may not be altered by an advisor or other third party in any way.

WisdomTree primarily uses WisdomTree Funds in the Model Portfolios unless there is no WisdomTree Fund that is consistent with the desired asset allocation or Model Portfolio strategy. As a result, WisdomTree Model Portfolios are expected to include a substantial portion of WisdomTree Funds, notwithstanding that there may be a similar fund with a higher rating, lower fees and expenses or substantially better performance. Additionally, WisdomTree and its affiliates will indirectly benefit from investments made based on the Model Portfolios through fees paid by the WisdomTree Funds to WisdomTree and its affiliates for advisory, administrative and other services.

Jeremy Siegel serves as Senior Investment Strategy Advisor to WisdomTree Investments, Inc., and its subsidiary, WisdomTree Asset Management, Inc. (“WTAM” or “WisdomTree”). He serves on the Model Portfolio Investment Committee for the Siegel-WisdomTree Model Portfolios of WisdomTree, which develops and rebalances WisdomTree’s Model Portfolios. In serving as an advisor to WisdomTree in such roles, Mr. Siegel is not attempting to meet the objectives of any person, does not express opinions as to the investment merits of any particular securities and is not undertaking to provide and does not provide any individualized or personalized advice attuned or tailored to the concerns of any person.

The Siegel-WisdomTree Longevity Model Portfolio seeks to address increasing longevity by shifting the focus to potential long-term growth through a higher stock allocation versus more traditional “60/40” portfolios.

AGGY: There are risks associated with investing, including the 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. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

USFR: There are risks associated with investing, including the possible loss of principal. Securities with floating rates can be less sensitive to interest rate changes than securities with fixed interest rates, but may decline in value. The issuance of floating rate notes by the U.S. Treasury is new, and the amount of supply will be limited. Fixed income securities will normally decline in value as interest rates rise. 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 this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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

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.

Related Blogs

- + [Generating Yield in a Volatile Market](#)
- + [Revisiting "Generating Yield in a Volatile Market"](#)

Related Funds

- + [WisdomTree Yield Enhanced U.S. Aggregate Bond Fund](#)
- + [WisdomTree Floating Rate Treasury Fund](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

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.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. 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.

Quantitative Tightening: Quantitative easing is a process whereby a central bank targets lowering longer-term interest rates by purchasing bonds and other securities to stimulate the economy. Quantitative tightening is the reverse process whereby securities are either sold or the proceeds of maturing securities are not reinvested with the goal of tightening economic conditions to prevent the economy from overheating.

Balance sheet: refers to the cash and cash equivalents part of the Current Assets on a firm's balance sheet and cash available for purchasing new position.

Inflation: Characterized by rising price levels.

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

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

Treasury: Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Curve: Refers to the yield curve. Positioning on the yield curve is important to investors, especially during non-parallel shifts.

Maturity: The amount of time until a loan is repaid.

Nominal Treasury: Rate on the treasury security not adjusted for inflation.

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.

Basis point: 1/100th of 1 percent.

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.