2017 UPDATE: ENHANCE YOUR AGGREGATE POSITIONS WHILE REDUCING RISK

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After hiking rates in March 2017, the Federal Reserve (Fed) remains poised to increase interest rates two additional times this year, we believe. Despite this consensus view, nominal interest rates are lower than they were to start the year at maturities of five years or greater.[1] Below, we highlight the likely driver of what we believe will prove to be a temporary decline in rates. In response, we believe investors should consider adding credit risk to their core bond portfolio while at the same time reducing interest rate risk.

Year-to-Date Decline in Rates

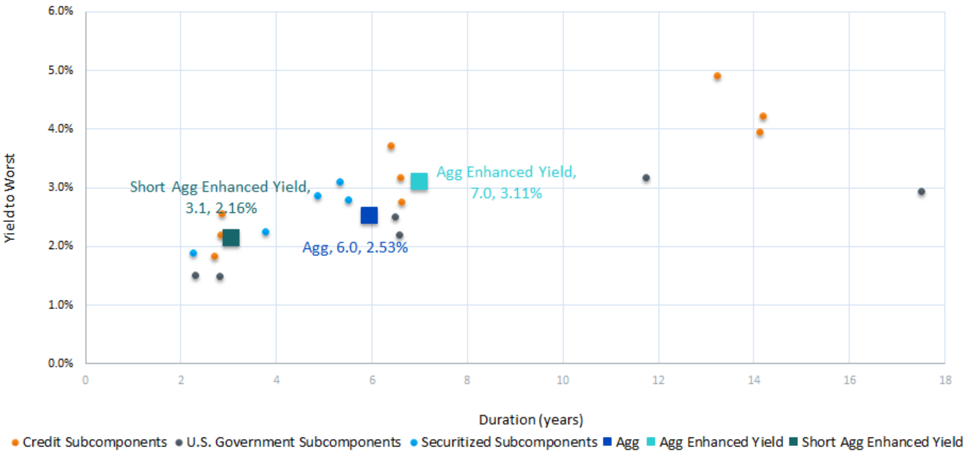
While shifts in global markets seldom have a singular catalyst, we believe a significant contributor to the move lower in rates has been a result of the repricing in confidence of the Trump administration's ability to affect pro-growth polices with Congress. In our 2017 outlook, our 3.00% rate target for U.S. 10-year debt was predicated on the passage of pro-growth fiscal policies combined with a meaningful infrastructure spending bill. Any potential distractions from this agenda will likely continue to increase uncertainty and keep rates at more subdued levels. We believe it is no coincidence that rates peaked in early March after Trump issued his controversial "travel ban" executive order. In our view, this setback represents an annoying distraction in Trump's policy agenda, not necessarily a retrenchment. As such, we would continue to advocate that investors tactically shift to a position under-weight in duration in advance of any potential shift in the political winds of Washington.

Add Risk Worth Taking, Subtract Risk That's Not

While many investors may find themselves uncomfortably long in equity and credit markets, we do not currently forecast a marked deterioration in credit quality for the majority of U.S. investment-grade (IG) companies. In response, while credit currently may provide less value than when we initially advocated this positioning in 2015, IG corporates could still provide a meaningful pickup in yield relative to U.S. Treasuries. While spreads of 113 basis points (bps)[2] remain near the tightest levels of the last 10 years, we believe this is largely a recognition by the market that U.S. corporate profits, as well as economic momentum, could be poised to accelerate in the coming quarters. As such, adding to positions in credit appears to us to be a risk worth taking.

On the other hand, we continue to advocate a more defensive positioning in U.S. interest rate risk. Currently, the market forecasts a 95% chance of a rate hike at the Fed's next meeting on June 14.[3] In anticipation of this move, we believe most investors should continue to reduce duration across their bond portfolios. This view is primarily predicated on the fact that we believe rate markets continue to be biased to the upside in the face of [tightening](#) policy by the Fed. While it is true that changes in Fed policy may not directly affect longer-term interest rates, the market has digested a fairly robust amount of supply year-to-date. In fact, corporate issuance set an all-time record in the first quarter.[4] While we do not believe the current pace is sustainable, absent a continued increase in marginal buyers, long-term interest rates should continue to rise in the U.S. over the course of 2017.

Identifying Opportunities in the Bloomberg Barclays U.S. Aggregate Index (Agg)



Source: Bloomberg, as of 4/30/17. Past performance is not indicative of future results. You cannot invest directly in an index

Enhancing Core Portfolios

After nearly two years of strong outperformance from our enhanced yield Agg strategy,[5] we believe a shorter [duration](#) variant[6] can also add significant value to investor portfolios. For investors who believe that the U.S. economy remains strong and corporate credit remains a buy, the [WisdomTree Yield Enhanced U.S. Short-Term Aggregate Bond Fund (SHAG)](#) combines our two favorite ideas in fixed income today: under-weight in duration and over-weight in credit. Given that the strategy focuses on the one-to-five-year segment of the Bloomberg Barclays U.S. Aggregate Index, the strategy seeks to maximize yield across the IG market while still adhering to constraints that strike a familiar balance between risk and reward. The resulting portfolio reduces duration by nearly three years while reducing income by only 37 bps relative to the Bloomberg Barclays U.S. Aggregate Index.[7] As a result, we believe this approach may provide a powerful means of maintaining income, while reducing interest rate risk in the core of investor portfolios.

[1]Source: Bloomberg, as of 5/11/17.

[2]As represented by the [Bloomberg Barclays U.S. Corporate Index](#)

[3]Source: Bloomberg, as of 5/11/17.

[4]Source: Bloomberg.

[5]The [Bloomberg Barclays U.S. Aggregate Enhanced Yield Index (Enhanced Yield Agg)](#) outperformed the Bloomberg Barclays U.S. Aggregate Index by 93 bps per year from 7/9/15

to 5/10/17.

[6]Represented by the Bloomberg Barclays U.S. Short Aggregate Enhanced Yield Index (Short Agg Enhanced Yield)

[7]Source: Bloomberg, as of 4/30/17.

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You cannot invest directly in an index.

DEFINITIONS

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.

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

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

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

Fiscal Policy : Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

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.

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

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.

Basis point : 1/100th of 1 percent.

Fed tightening : Refers to the Federal Reserve enacting monetary policies that have the overall impact of reducing the availability of credit, which is widely thought to have the potential to slow economic growth.

Barclays U.S. Corporate Index : is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.

Bloomberg Barclays U.S. Short Aggregate Enhanced Yield Index (Short Agg Enhanced Yield) : a constrained, rules-based approach that reweights the sector, maturity and credit quality of the Barclays U.S. Aggregate Index across various subcomponents in order to enhance yield maturing in one to five years.