

# BUILD YOUR CORE (PORTFOLIO) THE RIGHT WAY—PART 2

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There is no doubt that [fixed income](#) markets have had a challenging start to the year. As of May 10, 2024, the 10-Year Treasury rate stands at 4.49%, an increase of 61 [basis points \(bps\)](#) from the beginning of the year. This is mainly due to the markets’ rethinking of the timing and frequency of the cuts by the Fed in 2024. Sticky inflation, a strong job market and higher-than-expected GDP growth YTD have all had a role in this paradigm shift.

In the face of this environment, the Bloomberg US Aggregate Index (Agg) has posted a YTD return of -3.28% through the end of April. This result could have been even worse if not for resilient credit markets, with most asset classes’ spreads over Treasuries grinding lower and offsetting some of the price sensitivity to interest rate moves.

We wrote about the [WisdomTree Yield Enhanced U.S. Aggregate Bond Fund \(AGGY\)](#) at the end of February and explained how [there could be changes made to plain-vanilla, core U.S. aggregate portfolios to benefit from valuations](#). Since then, [AGGY](#) has outperformed the Aggregate Index by 21 bps gross and 18 bps net of fees, respectively. However, the more eye-catching numbers are the YTD numbers. Since the beginning of the year, [AGGY](#) has outperformed the Aggregate Index by 56 bps gross and 51 bps net of fees, respectively (as of April 30, 2024). Over the last year, [AGGY](#) has outperformed by 1.80% gross of fees and 1.65% net of fees.

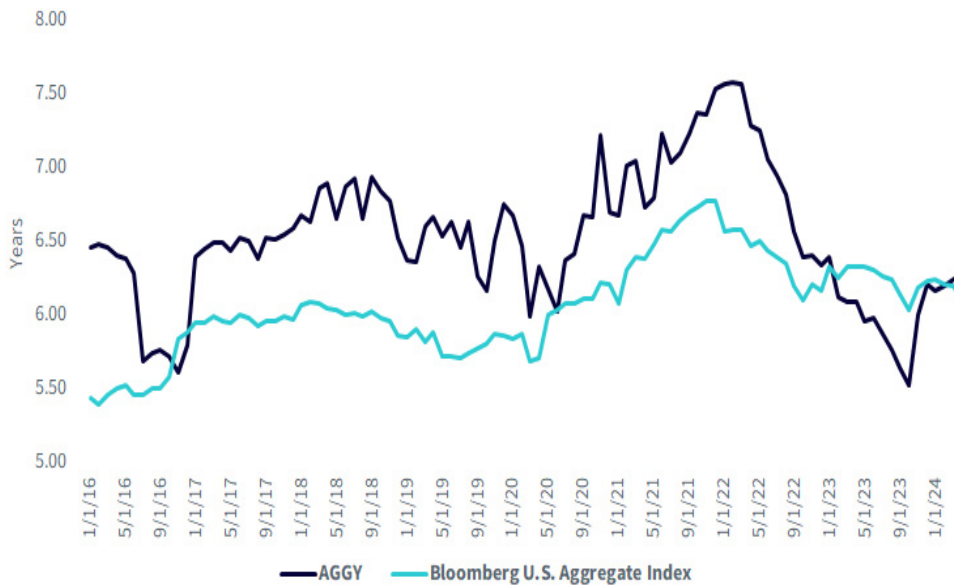
	Inception Date	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	Since Inception
WisdomTree Yield Enhanced U.S. Aggregate Bond Fund (NAV)	7/9/15	-2.40%	-2.73%	-2.77%	0.18%	-3.61%	-0.31%	1.14%
Bloomberg U.S. Aggregate Enhanced Yield Index		-2.43%	-2.68%	-2.77%	0.42%	-3.44%	-0.16%	1.33%
Bloomberg U.S. Aggregate Bond Index		-2.53%	-3.02%	-3.28%	-1.47%	-3.53%	-0.16%	0.99%

Sources: Bloomberg, WisdomTree, as of 4/30/24. You cannot directly invest in an index. Performance data quoted represents past performance and is no guarantee of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted.

*For the most recent standardized and month-end performance, please click [here](#).*

Looking forward, we still believe [AGGY](#) can continue to outperform the Aggregate Index. This is due to the fact that in addition to all the characteristics outlined in the first part of this blog series, and after almost a year and a half of having a lower duration compared to the Agg, [AGGY](#) now has a higher duration and can benefit in most environments in which rates don’t go materially higher from here.

## Option-Adjusted Duration



Sources: Bloomberg, WisdomTree, as of 4/30/24. You cannot directly invest in an index. Past performance is not indicative of future results. Option-Adjusted Duration = the duration for a bond with an embedded option when the value is calculated to include the expected change in cash flow caused by changes in market interest rates.

In response to the Federal Reserve's policy tightening and the resulting inverted yield curve, our quantitative process shifted some of the allocation away from long-duration sectors, such as 30-year conventional [mortgage-backed securities \(MBS\)](#), toward shorter-term sectors, including 1- to 5-year corporate bonds. This reallocation caused the Fund to have a lower duration than Agg's in the past year and a half. And, as rates rose during this period, the Fund was rewarded handsomely.

However, as corporate spreads have kept grinding lower, the risk-return profile of the long credit sector has become attractive, and as a result, its allocation in the Fund has been on the rise. This has led to [AGGY](#) once again having a higher duration than the Agg as of April 30, 2024. As we mentioned earlier, if the market and Fed's expectations of a lower future path for rates come to fruition, we expect this longer duration will benefit the strategy once again. In conclusion, [AGGY](#) has performed well compared to its big brother recently and since its inception. Despite this outperformance, since most of the themes that we outlined in the first part of this blog series at the end of February are still relevant, we believe there is more room for outperformance, and as a result, [AGGY](#) should be considered as an integral part of core fixed income investors' portfolios.

#### Important Risks Related to this Article

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.

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>

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**Basis point**: 1/100th of 1 percent.

**Mortgage-backed securities**: Fixed income securities that are composed of multiple underlying mortgages.