
FINDING FIXED INCOME OPPORTUNITIES IN THE NEW RATE REGIME

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Calendar year 2024 presents fixed income investors with a [new rate regime](#) in terms of absolute yield levels, and from a monetary policy perspective.

Unlike 2022 and 2023, when rate hikes dominated the landscape, this year is expected to bring a change in scenery from the [Federal Reserve](#), where [rate cuts](#) are soon to be the primary theme.

However, given the outcome of the [January FOMC meeting](#) and attendant Powell presser, the timing and magnitude for an easing in policy is still uncertain.

In addition, economic data, such as the most recent jobs report, has also challenged the money and bond markets' most optimistic expectations, creating an environment for continued elevated [volatility](#).

While the potential for ongoing [bond market](#) volatility certainly presents challenges, we are also finding many interesting opportunities for fixed income investors.

For advisors seeking the flexibility to capitalize on bond market opportunities and adjust exposures as conditions change, Model Portfolios can provide cost-effective access to the expertise of our asset allocation and fixed income teams.

Our [WisdomTree Fixed Income Model Portfolio](#) recently passed its 10-year anniversary since inception. To mark the occasion, we wanted to provide an update on our current outlook and positioning, and look back on performance since inception.

Positioning within our Fixed Income Model Portfolios

Below we summarize the current positioning and some of the recent changes within our WisdomTree Fixed Income Model Portfolio, which is dynamically managed based on the top-down and sector-specific views of our Model Portfolio Investment Committee.

WisdomTree Model Portfolio Investment Committee–Fixed Income Positioning

Equities vs. Bonds

- + Neutral
- + Equity risk premium >3%, slightly below long-term average

Duration

- + Neutral/slightly short of benchmark
- + Deliberately added duration throughout 2023, covering short

Over-Weight

- + Securitized (Agency MBS)
- + U.S. Treasury Floating Rate Notes (FRNs)
- + Quality-screened investment-grade and high-yield credit

Under-Weight

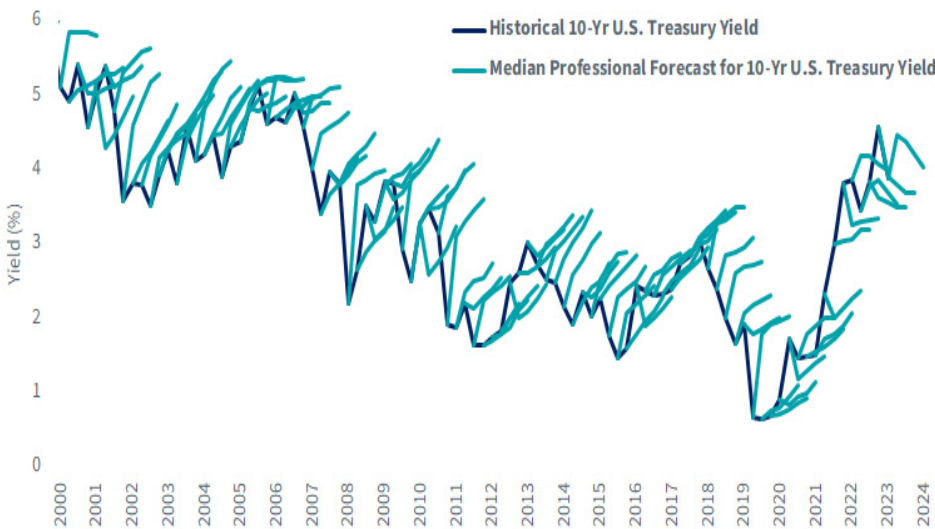
- + Government bonds (U.S. Treasuries)

Source: WisdomTree, as of 12/31/23.

Given the inverted nature of the [yield curve](#), we remain allocated to short-[duration](#) bonds, including [Treasury floating rate notes](#).

However, using a [barbell approach](#), we continued to add duration in a deliberate manner in 2023. After spending much of the past few years shorter in duration than our benchmarks, we are now closer to a “neutral” stance, which we feel is prudent given the level of ongoing interest rate volatility and the inherent difficulty in predicting shorter-term movements in interest rates (see below).

10-Year U.S. Treasury Yield: Historical vs. Median Professional Forecast



Sources: Federal Reserve Bank of Philadelphia Survey of Professional Forecasters, FactSet, WisdomTree, as of 1/25/24.

Another opportunity we see in fixed income markets is securitized assets, specifically agency [mortgage-backed securities \(MBS\)](#). While investment-grade and high-yield corporate credit [spreads](#) tightened well inside of their historical averages last year, we believe yields on agency [MBS](#) relative to Treasuries offer attractive value. Therefore, we rotated from high-yield corporates into MBS, while maintaining a modest over-weight allocation to quality high-yield credit.

A 10-Year Track Record of Performance

Since its launch in December 2013, the WisdomTree Fixed Income Model Portfolio has delivered on its objective, outperforming the Bloomberg U.S. Aggregate Bond Index since inception and over the past 1-year, 3-year, 5-year and 10-year periods.

Financial advisors can learn more about the WisdomTree lineup of fixed income and multi-asset Model Portfolios by visiting our [Model Adoption Center](#).

WisdomTree Fixed Income Model Portfolio Performance

Model Portfolio Performance	Cumulative Performance			Annualized Performance				
	1 Month	3 Months	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
WisdomTree Fixed Income Model Portfolio (NAV)	3.70%	6.61%	6.41%	6.41%	-2.25%	1.68%	2.13%	2.13%
Bloomberg U.S. Aggregate Bond Index	3.83%	6.82%	5.53%	5.53%	-3.31%	1.10%	1.81%	1.78%
Active Return	-0.13%	-0.21%	0.88%	0.88%	1.06%	0.58%	0.32%	0.35%

Sources: WisdomTree, FactSet, as of 12/31/23. Inception date for WisdomTree Fixed Income Model Portfolio is 12/18/13.

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 sold, may be worth more or less than their original cost.

The Model Portfolio performance results shown are theoretical and do not reflect any investor's actual experience with owning, trading or managing an actual investment. Thus, the performance shown does not reflect the impact that economic and market factors had or might have had on decision making if actual investor money had been managed and allocated per the Model Portfolio. Actual performance achieved in seeking to follow the Model Portfolio may differ from the theoretical performance shown for a number of reasons, including the timing of implementation of trades (including rebalancing trades to adjust to Model Portfolio changes), market conditions, fees and expenses (e.g., brokerage commissions, deduction of advisory or other fees or expenses charged by advisors or other third parties to investors, strategist fees and/or platform fees), contributions, withdrawals, account restrictions, tax consequences, and/or other factors, any or all of which may lower returns. While Model Portfolio performance may have performed better than the benchmark for some or all periods shown, the performance during any other period may not have, and there is no assurance that Model Portfolio performance will perform better than the benchmark in the future. Model Portfolio performance calculations assume reinvestment of dividends, are pre-tax and are net of fund expenses.

ETF shares are bought and sold at market price (not NAV) and are not individually redeemable 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.

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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.

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DEFINITIONS

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Rate Cut: A decision by a central bank to reduce its main interest rate, usually to influence rates charged by other financial institution.

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

Bond market: The bond market—often called the debt market, fixed-income market, or credit market—is the collective name given to all trades and issues of debt securities. Governments typically issue bonds in order to raise capital to pay down debts or fund infrastructural improvements.

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

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.

Floating Rate Treasury Note: a debt instrument issued by the U.S. government whose coupon payments are linked to the 13-week Treasury bill auction rate.

Spread: Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely.

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