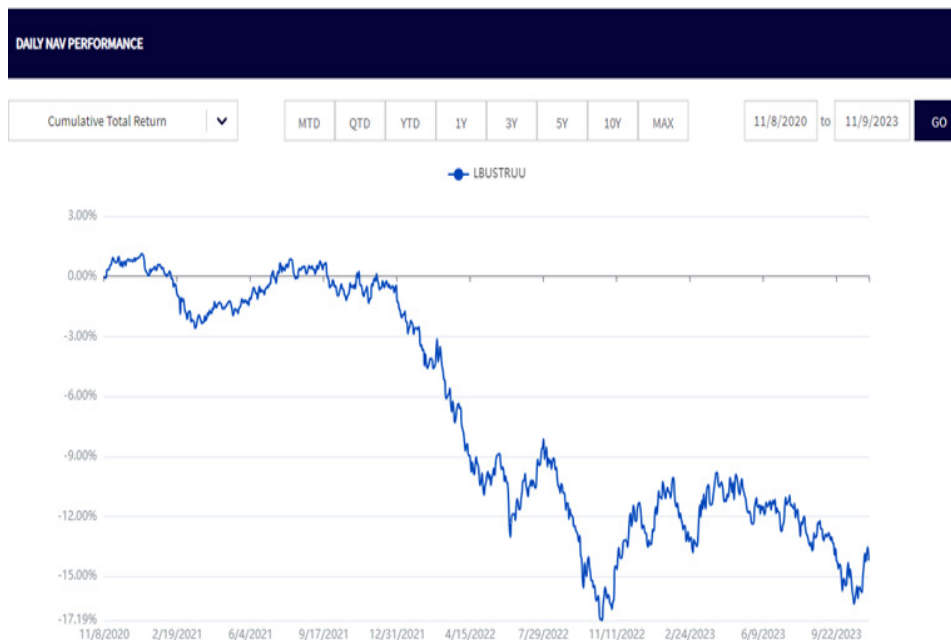


HARVESTING LOSSES INTO A FIELD OF OPPORTUNITY

Kevin Flanagan – Head of Fixed Income Strategy
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As the calendar pages continue to dwindle here in 2023, investors may want to take stock of their fixed income portfolio and consider how to position for the new year. One input to consider is whether any of your holdings could be headed for a loss for the current year. While we are not tax advisors, a strategy that investors have employed in the past and may want to consider now is [tax-loss harvesting, if applicable, and then reinvesting into solutions](#) that can help position your bond portfolio for what may lie ahead in 2024.



Source: WisdomTree, as of 11/10/23. You cannot directly invest in an index. Past performance is not indicative of future results. LBUSTRUU = Bloomberg US Agg Total Return Value Unhedged USD Index.

Go to the Core

Specifically, within the fixed income arena, a good place to start the portfolio review process is with one’s core holding. Typically, this core holding is either the [Bloomberg U.S. Aggregate Index \(the Agg\)](#) or somehow tied or referenced to it. During pre-COVID-19 days, the Agg enjoyed many years of positive performance, but more recently, the string of years in the plus column has come to an end. In fact, calendar year 2022 was arguably its worst year on record in terms of performance.



Source: WisdomTree, as of 11/10/23. You cannot directly invest in an index. Past performance is not indicative of future results. LBUSTRUU = Bloomberg US Agg Total Return Value Unhedged USD Index.

That brings us to where the Agg stands thus far in 2023. As you can see, after a volatile first eight or nine months to begin this year, performance has once again dipped into negative territory, and unless there is a bond market rally of consequence to end this year, it would appear as if the Agg could be in the negative column yet again.

So, What's a Bond Investor to Do?

This is where repositioning for 2024 comes into play, where an investor could consider selling their current "Agg-like" position for tax loss harvesting and reallocate the funds accordingly. Based on our rate outlook of "high for longer" and the attendant heightened uncertainty that surrounds Fed policy, the time-tested [barbell](#) strategy comes into play. The barbell approach offers bond investors flexibility on the "rate call" while also providing potential income opportunities, given the "new" regime for fixed income yields.

What Should the Barbell Look Like?

In my opinion, investors should be using the "barbell" to achieve their overall fixed income [duration](#) and income needs. As a result, a combination of intermediate/core and ultra-short/short duration seems appropriate.

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.

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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,

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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

Bloomberg U.S. Aggregate Bond Index: Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage and asset backed securities.

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

barbell: The barbell is an investment strategy applicable primarily to a fixed income portfolio.

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.