
PUMP IT UP

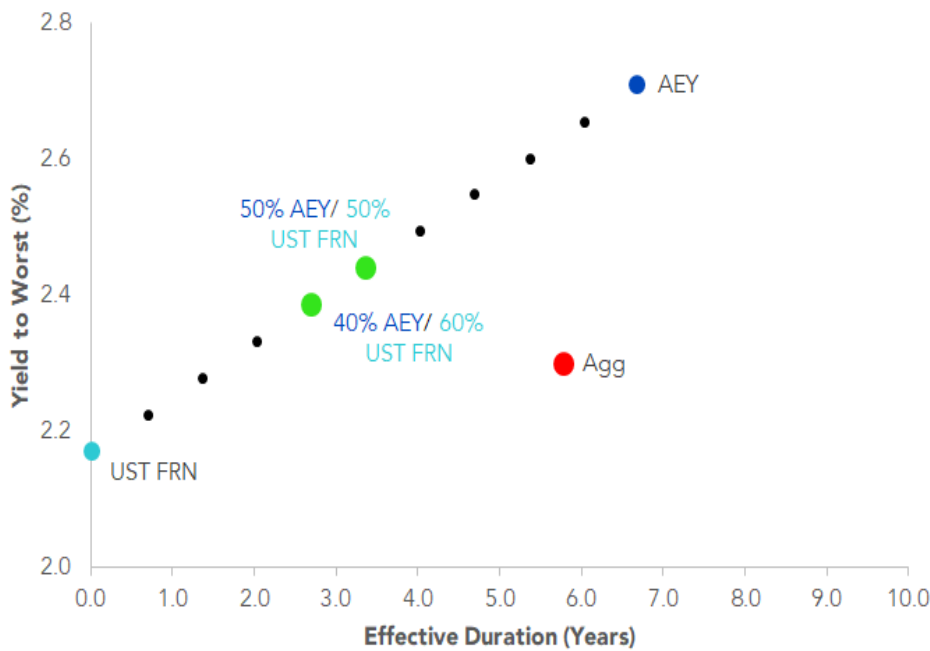
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For those investors looking for a final, quiet summer vacation period before the kids go back to school, think again—the bond market has certainly had other plans. The tumultuous events that kicked off August have served as a not-so-subtle reminder that [volatility](#) appears to be here to stay. [Yield](#) movements in the [Treasury](#) market have been on a roller coaster since the [Federal Reserve's \(Fed\)](#) July [rate cut](#), and given the various catalysts that remain out there (solid job market, good U.S. growth but [recession](#) fears, trade uncertainty, softening global economies, Middle East (Iran) flare-ups), it's a difficult landscape for fixed income investors to traverse.

Certainly, the recent trend has been for rates to be on a descending trajectory, but what if headlines or tweets change course? Then what? Against this backdrop, I continue to advocate a solution for fixed income investors that has been time-tested, and does not require a “call” on where you think [interest rates](#) may be headed—[the barbell strategy](#).

As the reader may recall, we began writing about this approach last summer, utilizing the [Bloomberg Barclays U.S. Aggregate Yield Enhanced \(AEY\) Index](#) and [U.S. Treasury floating rate \(UST FRN\)](#) strategy and comparing the results to the widely followed benchmark, the [Bloomberg Barclays U.S. Aggregate Bond Index \(Agg\)](#). At first, the combination centered around a 70% AEY and 30% UST FRN blend, but throughout the course of 2019, this ratio has continued to be adjusted due to the decline in intermediate yields and the resulting flattening of the [yield curve](#).

Yield to Worst and Effective Duration Comparison Enhanced Yield/UST FRN vs. Aggregate



Source: Bloomberg, as of 8/09/19. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

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

The accompanying graph now illustrates the updated combination of either 50% AEY/50% UST FRN or 40% AEY/60% UST FRN pairings. Given the latest bout of yield curve flattening, I also threw in a 30% AEY/70% UST FRN combo for consideration. Here are the respective results versus the Agg:

		Yield to Worst (YTW)		Versus the Agg	
AEY	UST FRN	YTW	Duration	YTW	Duration
50%	50%	2.44	3.36	0.14	-2.42
40%	60%	2.39	2.69	0.09	-3.08
30%	70%	2.33	2.02	0.03	-3.75

Source: Bloomberg, as of 8/09/19. Past performance is not indicative of future results. You cannot invest directly in an index.

Conclusion

The [WisdomTree Yield Enhanced U.S. Aggregate Bond Fund \(AGGY\)](#), which seeks to track the [Bloomberg Barclays U.S. Aggregate Enhanced Yield Index](#), and the [WisdomTree Floating Rate Treasury Fund \(USFR\)](#), which seeks to track the [Bloomberg U.S. Treasury Floating Rate Bond Index](#), can be utilized as the two “weights” of the barbell strategy. This approach offers a strategic solution that is designed to help fixed income investors navigate the uncertain waters that loom ahead, without making a “high conviction bet” on where rates are headed in this seemingly “ever-changing” interest rate landscape.

Unless otherwise stated, data source is Bloomberg, as of August 8, 2019.

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DEFINITIONS

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

Yield: The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

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.

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.

Recession: two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Bloomberg Barclays U.S. Aggregate Enhanced Yield Index: a constrained, rules-based approach that reweights the sector, maturity, and credit quality of the Barclays U.S. Aggregate Index across various sub-components in order to enhance yield.

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.

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.

Yield curve: Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

Barclays U.S. Dollar Floating Rate Note (FRN) Index: provides a measure of the U.S. dollar denominated floating rate note market.