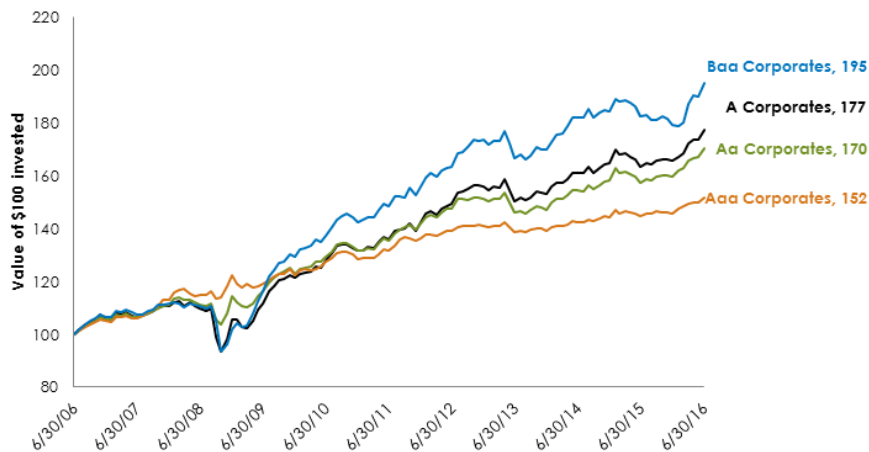


PUTTING SOME INCOME IN FIXED INCOME

Kevin Flanagan – Head of Fixed Income Strategy
07/27/2016

We're now past the one-month post-Brexit vote mark, and the dust does appear to be settling in the fixed income markets. The initial knee-jerk responses in both the interest- and credit-sensitive arenas have given way to more of a focus of what market conditions may be like during the second half of this year and into 2017. Indeed, as of this writing, the U.S. [Treasury](#) (UST) [10-Year yield](#) has risen roughly 30 [basis points \(bps\)](#) from its intraday post-Brexit low, while [corporate bond spreads](#) have more than reversed their initial widening and have returned to summer 2015 levels. Notwithstanding these recent moves, given ongoing uncertainties and continued concerns surrounding economic growth both here and abroad, investors will more than likely continue to face a low-rate environment. Certainly, the usual suspects such as slow growth, low [inflation](#) and [safe-haven](#) demand should continue to play a role, but in our opinion, a key factor both past, present and for the future will likely be the incredibly low-rate backdrop abroad. This factor doesn't look like it's going to change anytime soon, either, as the European Central Bank (ECB), the Bank of Japan (BOJ) and now the Bank of England (BOE) all seem to be focusing on policies that, at a minimum, should keep rates where they currently are. There is little doubt that favorable [rate differentials](#) have already helped push UST 10-Year yields to new lows and should serve as a future cap on domestic rates, at a minimum.

Credit Quality Sectors 6/30/06-6/30/16



Source: WisdomTree, Barclays, as of 6/30/2016. Past performance is not indicative of future results.

Aaa Corporates, Aa Corporates, A Corporates, and Baa Corporates proxied by each credit ratings sub-index of the [Barclays US Corporate Investment Grade Index](#). Against this backdrop, income-based solutions should continue to be the goal for bond investors. However, it is important to consider how [yield](#) enhancement may be achieved, and the potential risks that could be involved. Oftentimes, the pursuit of additional income involves placing bets too far out in duration ([interest rate risk](#)) and/or going too far down the credit ratings curve ([credit risk](#)). Given an investor's parameters, high-yield corporates and emerging market

debt could be viewed as solutions for income, but for core fixed income portfolios these types of investments may be viewed as adding too much incremental risk. In our opinion, a more disciplined approach, which does not involve “reaching for yield,” would be to focus on the relative value differentials that exist in the investment-grade universe. In other words, reallocating positions among the interest- and credit-sensitive arenas. In our interest rate scenarios, we feel an over-weight to Treasuries is not only suboptimal but also susceptible to any potential unexpected rise in rates. The sector of fixed income that we feel could offer the best relative value is [investment-grade \(IG\)](#) corporates. Not only could this sector provide a visible yield advantage to Treasuries, it can also offer some risk mitigation from rising rates if the economy improves. In fact, the average yield for an IG corporate is almost double the yield of a UST 10-Year note, something that has happened only twice before. Within the IG corporate sector, we focus on the [Baa](#) area. This rating exhibited lower correlations to Treasuries while also offering strong absolute returns relative to other credit quality sectors. **Conclusion** The [WisdomTree Barclays U.S. Aggregate Bond Enhanced Yield Fund \(AGGY\)](#) is suited as both an income solution and the core fixed income aspect of an investor’s portfolio. Its risk characteristics are well placed for a variety of interest rate landscapes and/or event risks that can come about.

Important Risks Related to this Article

There are risks associated with investing, including 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.

Credit ratings apply to the underlying holdings of the Fund, and not to the Fund itself. S&P and Moody’s study the financial condition of an entity to ascertain its creditworthiness. The credit ratings reflect the rating agency’s opinion of the holdings financial condition and histories.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.
You cannot invest directly in an index.

DEFINITIONS

Brexit: an abbreviation of “British exit” that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Union.

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.

10-year government bond yield: Yields on the 10 year government debt security.

Basis point: 1/100th of 1 percent.

Corporate Bonds: a debt security issued by a corporation.

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.

Inflation: Characterized by rising price levels.

Safe-haven: Characterized by being a potentially desirable focal point of investment flows during periods of increased volatility and market risk. Safe-haven is not synonymous with risk-free.

Interest Rate Differentials: The Difference between the 2 Year interest rate swaps of the United Kingdom vs. the United States.

Barclays U.S. IG Corporate Index: A broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

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.

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

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

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

Baa: Moody’s credit rating that implies the borrower has capacity to meet financial commitments, but may be more vulnerable to adverse economic conditions. This rating includes the lowest level of credit risk while still being investment-grade.