INTRODUCING THE WISDOMTREE SHORT DURATION FIXED INCOME MODEL

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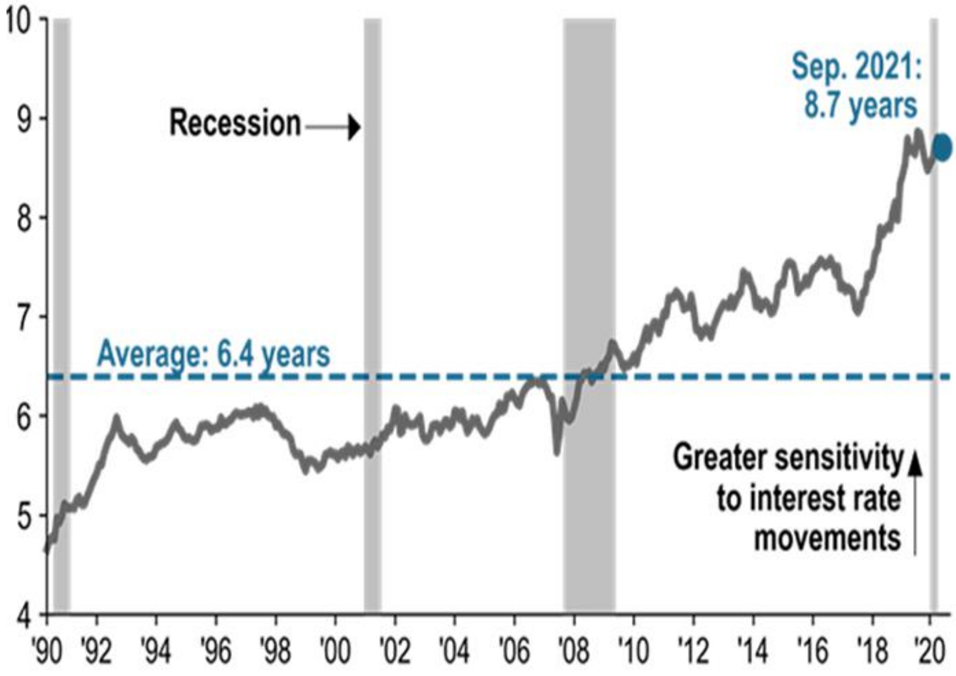
This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

Take a look at the following three charts. The first shows the increasing duration of gross debt in the United States. Gross debt includes government, household and non-financial corporate debt. As a reminder, duration is a measure of the sensitivity of bond prices to changes in interest rates, and it is an inverted relationship—when rates go up, bond prices typically go down. The longer the duration, the more sensitive bond prices typically are to changes in rates.

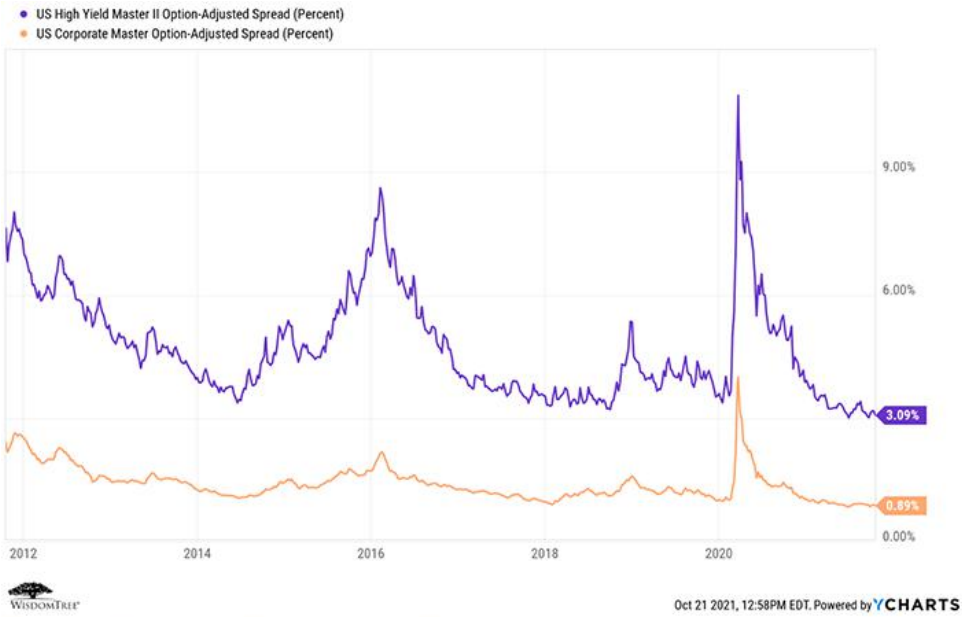


Sources: Bank for International Settlements (BIS), Barclays, Bloomberg, as of 9/30/21.

The second chart is the course of interest rates over the past 12 months, especially in the last three—a steady increase, and one that we believe will continue (with the 10-Year Treasury rate perhaps hitting 1.75%–2.00% by year-end).

Source: YCharts, 12-month data through 10/20/21. You cannot invest in an index and past performance does not guarantee future results.

The third chart is the current level of investment-grade and high-yield credit spreads—currently trading at multi-year lows.



Source: YCharts, 10-year data through 10/20/21. You cannot invest in an index and past performance does not guarantee future results.

For definitions of terms in the charts, please visit the glossary.

So, rising rates and tight spreads. What is a poor bond investor supposed to do?

Introducing the WisdomTree Short Duration Fixed Income Model

WisdomTree recently launched a Short Duration Fixed Income Model, designed specifically to reduce interest rate risk while not sacrificing too much in terms of yield, relative to the Bloomberg Barclays U.S. Aggregate Bond Index. It can be used as a stand-alone fixed income model or as a complementary sleeve to an existing fixed income allocation as a means of reducing duration risk without disrupting existing allocations.

We kept it simple and inexpensive—four tickers that provide diversification across sectors while maintaining a low duration profile. While a simple construct, the four underlying Funds incorporate some of our most sophisticated thoughts in balancing income opportunities and the risks they entail—from the fundamental screens within our corporate strategies to the prudent approach for enhancing yield embedded in our short core Fund to our leveraging the deep expertise of the Voya Securitized Debt team in navigating opportunities in the securitized debt markets.

WisdomTree Short Duration Fixed Income Model Portfolio

Close

1.99%	0.28%	05/31/2021	100%
Model 12-Month Dividend Yield (As of 09/30/2021)	Model Expense Ratio	Inception date	Fixed Income

Model Performance | Model Allocations | Model Exposures | Fund Performance | Fund Details

Ticker	Name	Target Allocations (As of 9/30/2021)
Fixed Income		**100.00%**
SHAG	WisdomTree Yield Enhanced U.S. Short-Term Aggregate Bond Fund	35.00%
HYZD	WisdomTree Interest Rate Hedged High Yield Bond Fund	25.00%
MTGP	WisdomTree Mortgage Plus Bond Fund	20.00%
SFIG	WisdomTree U.S. Short-Term Corporate Bond Fund	20.00%

Source: WisdomTree Model Adoption Center, as of 9/30/21. 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 redeemed, may be worth more or less than their original cost. Model 12-month yield is calculated using the weighted average trailing 12-month distribution yields of the Fund constituents. Funds incepted less than 12 months do not have trailing 12-month dividend yields. Model Expense Ratio refers to the weighted average expense ratios of the Fund constituents.

For standardized and month-end performance of the funds mentioned above click here.

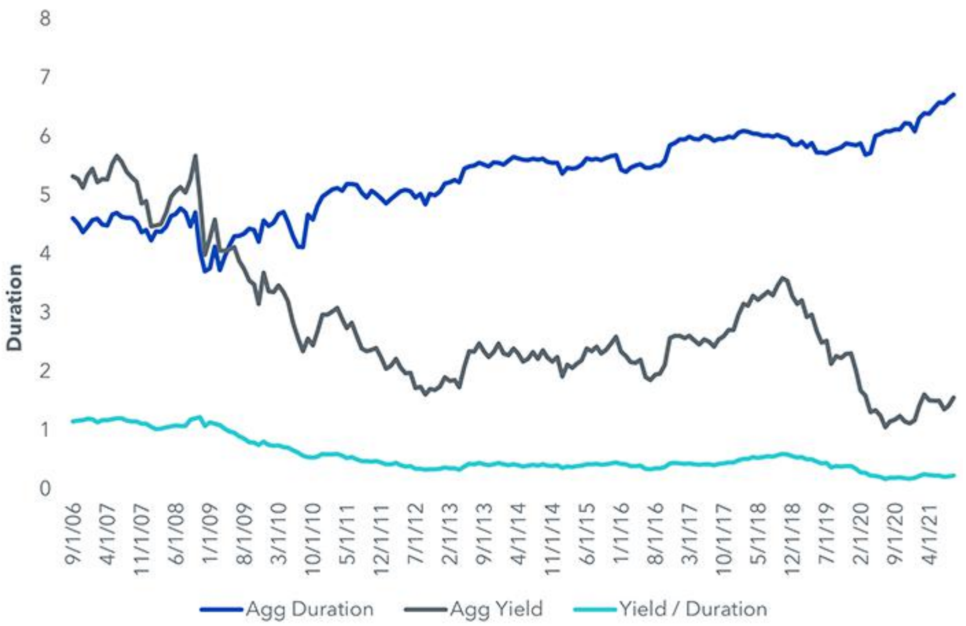
For a prospectus for the funds referenced above click here.

As of September 30, 2021, this Model Portfolio, using the weighted average yield of the four underlying securities (since the Model itself was launched only a short while ago), posted a trailing 12-month yield of 1.99% (with a current yield-to-worst of 1.71%)[1], while maintaining an average duration of 3.1 years.

In comparison, the Bloomberg Barclays U.S. Aggregate Bond Index currently has an average duration of 6.71 years and is offering a current yield of 1.56%. The pick-up in yield in the short duration Model reflects that it is taking on more credit risk than the index.

Take a look at the following chart. It shows the marginal increase in realized yield as duration increases. Historically, this relationship was roughly 1:1—a 1% pick up in yield for every additional year of duration. That relationship is now at an historical low. Investors simply are not being rewarded at an appropriate level for taking on additional interest rate risk—especially in an environment where we believe rates will continue to grind higher.

The Trade-Off between Duration and Yield



Sources: WisdomTree, Bloomberg, data through 9/30/21. You cannot invest in an index and past performance does not guarantee future results.

Conclusions

With interest rates likely to move higher and credit spreads historically tight, investors should not be looking to take excessive interest rate risk within their fixed income allocations.

Our new Short Duration Fixed Income Model may be part of the solution. It can potentially help reduce interest rate (duration) risk while generating close-to-index levels of yield.

You can learn more at our Model Adoption Center. We hope you will take a look.

[1] "Yield-to-worst" is a measure of the lowest possible yield that can be received on a bond that fully meets its contractual obligations without defaulting. It takes into account bond provisions that allow the issuer to close out the debt before it matures (two examples are callability and the prepayment option on mortgages).

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. High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Please read each Fund's prospectus for specific details regarding the Fund's risk profile.

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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.

View the online version of this article here.

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You cannot invest directly in an index.

DEFINITIONS

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

10- Year Treasury : a debt obligation of the U.S. government with an original maturity of ten years.

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

High Yield : Sometimes referred to as “junk bonds,” these securities have a higher risk of default than investment-grade securitie.

Credit spread : The portion of a bond’s yield that compensates investors for taking credit risk.

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

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.

Diversification : A risk management strategy that mixes a wide variety of investments within a portfolio.