FINDING OPPORTUNITIES IN A NEW RATE REGIME

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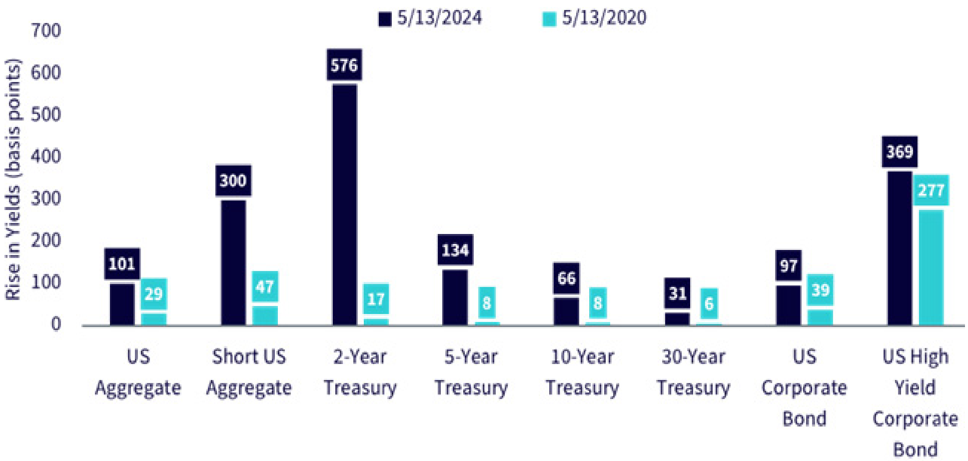
This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model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

In today's new rate regime, yield levels not seen in roughly 15 years offer a wide range of opportunities for fixed income investors.

Given the higher starting yield of core bonds today, investors can likely expect higher returns from bonds going forward, allowing fixed income to play the more traditional role of generating income in portfolios.

Beyond more attractive returns, bond investors also now have a larger "buffer," in the form of higher yields, to protect from any potential increase in interest rates. This is illustrated in the graph below, which shows for each fixed income investment, the one-year increase in yields required to wipe out all interest income and generate a negative total return.

One-Year Increase in Yields Required to Generate Negative Total Return (Wipe Out Interest Income)



Source: WisdomTree, Bloomberg; as of 5/13/24. You cannot invest directly in an index. Past performance is not indicative of future returns.

For definitions of terms in the chart above, please visit the glossary.

Within our fixed income Model Portfolios, we have capitalized on these increasingly attractive risk/return profiles in several different ways.

We Remain Allocated to High-Yield Credit, with a Couple of Caveats

One way we have achieved this is through our allocation to high-yield corporate bonds. We view high-yield credit as an attractive long-term investment that belongs in most investors' strategic asset allocation. Indeed, high yield has been one of the best-performing segments of the fixed income universe over the past several years.

While we have gradually reduced our high-yield exposure in Model Portfolios as spreads have tightened, we remain allocated near the low end of our strategic range. Importantly, we prefer high-yield strategies that tilt toward issuers with higher-quality fundamentals versus market capitalization-weighted indexes.

The [WisdomTree U.S. High Yield Corporate Bond Fund (WFHY)] provides investors with a more targeted high-yield (HY) exposure via a systematic, multi-step process that screens the HY universe to reduce or eliminate exposure to weaker credits.

Should higher interest rates and/or economic weakness create a more challenging market environment for U.S. corporations, we believe these strategies will be well-placed to protect investors on the downside.

Extending Duration via a High-Quality Fixed Income Sector with Attractive Valuations

Another way we have capitalized on the new rate regime in our Model Portfolios is by extending our maturity profile, covering our duration under-weight over the past several quarters.

One high-quality fixed income sector that we have utilized in this duration extension has been agency mortgage-backed securities (agency MBS).

One of the largest asset classes in the U.S. bond market, the principal and interest of agency mortgage-backed securities are guaranteed by government-sponsored entities (GSEs) such as Fannie Mae, Freddie Mac and Ginnie Mae, which benefit from their relationship with the U.S. government.

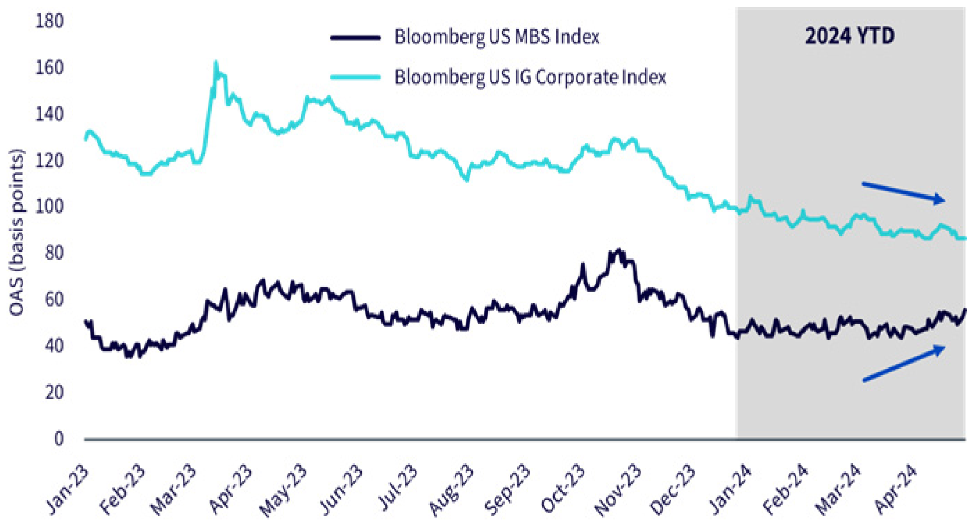
Even with this implicit backing, an MBS typically provides a yield premium (measured by option-adjusted spread, or OAS) compared to Treasuries as compensation for investors assuming the prepayment risk embedded in the underlying mortgages.

As the market has factored in fewer rate cuts over the course of this year, mortgages have underperformed other risk assets.

The additional yield pickup over Treasuries on investment-grade (IG) and high-yield corporate bond indexes has continued to grind lower this year. Spread levels have fallen by 12 and 22 basis points (bps), respectively,[1] and are now quite expensive—trading at single-digit percentiles relative to their historical levels from 2010 to the present.[2]

In contrast, as of April 30, 2024, the (agency) MBS Index has widened by 9 bps YTD and remains attractive relative to its own historical levels.[1] Current spreads are in the 80th percentile of their historical range since 2010.[2]

Spread (OAS) above Treasuries on Agency MBS and Corporate Bonds



Source: WisdomTree, Bloomberg. As of 4/30/2024. You cannot invest directly in an index. Past performance is not indicative of future returns.

Additionally, the expectation of upcoming rate cuts by the Federal Reserve and a reduction in interest rate volatility from historically elevated levels provides a supportive macro backdrop for agency MBS.

Finally, there are some ongoing technical factors that could be helpful on the supply and demand front:

- With mortgage rates at multi-decade highs, supply has been running below expectations.
- Demand from foreign buyers, specifically Chinese commercial banks, is likely to be quite strong this year.
- The largest holders of MBS, U.S. banks, were sidelined from the MBS market for the last two years due to higher rates and regulatory uncertainty. However, based on recent reports, upcoming changes to capital rules may increase the outlook for bank demand going forward.

For investors considering a dedicated exposure to mortgage-backed and other securitized debt instruments, the [WisdomTree Mortgage Plus Bond Fund (MTGP)] may be worth considering. The strategy is an actively managed ETF that balances a strategic core exposure to agency MBS augmented by diversifying and tactical exposures to other securitized sectors.

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

[1] Sources: WisdomTree, Bloomberg, as of 4/30/24. You cannot invest directly in an index. Past performance is not indicative of future returns.

[2] Sources: Bloomberg, Goldman Sachs Global Investment Research, as of 5/9/24. You cannot invest directly in an index. Past performance is not indicative of future returns.

Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

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. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

WFHY: High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments.

MTGP: When interest rates fall, income may 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. Liquidity risk may result from the lack of an active market or reduced number and capacity of traditional market participants to make a market in fixed income securities and may be magnified in a rising interest rate environment and/or with respect to particular types of securities, such as securitized credit securities. Non-agency and other securitized debt are subject to heightened risks as compared to agency-backed securities. High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Derivative investments can be volatile, and these investments may be less liquid than other securities and more sensitive to the effects of varied economic conditions. Unlike typical exchange-traded funds, the Fund is actively managed using proprietary investment strategies and processes, and there can be no guarantee that these strategies and processes will be successful or that the Fund will achieve its investment objective. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs.

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