

# PROTECTING THE "CORE"TERBACK

Kevin Flanagan — Head of Fixed Income Strategy

09/15/2021

The 2021 football season is upon us with the first pro and college games now under our belt. One of the keys to success on the gridiron is to protect the quarterback. And when it comes to investing in fixed income, one of the keys for performance is to safeguard your bond portfolio from rising rates.

So, how is football related to fixed income, you might ask? At the center of the football universe lies the aforementioned quarterback, while typically at the center of a bond portfolio, it is a core aggregate holding...aka the "core"terback (too corny?). The lion's share of any fixed income asset allocation begins with this "core" building block. Indeed, this is the starting point with which to invest in the bond market, and one can build the other pieces of the portfolio around this core to act as a complement.

Total NAV Return of AGZD vs. Bloomberg U.S. Aggregate Bond Index During Recent Rising Rate Periods			
Fund Name	Ticker	7/8/16–11/8/18	8/4/20–3/31/21
WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund	AGZD	5.25%	1.02%
Bloomberg U.S. Aggregate Bond Index	LBSTRUU	-2.47%	-3.70%

Source: WisdomTree, as of 9/9/21. Fund returns at NAV. You cannot invest directly in an Index.

In the current historically low [interest rate](#) environment, one complement investors should be considering is a [rate-hedge d](#) vehicle. As we have seen over the last year or so, rate movements can shift quickly, and in our opinion, yield levels are poised to resume another upward trend into the final stretch of this year and into 2022, if not beyond.

I believe the [WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund \(AGZD\)](#) offers investors a rate-hedged strategy that serves as a targeted counterpart to an investor's core fixed income holding, especially the widely used [Bloomberg U.S. Aggregate Bond Index](#), more commonly referred to as the Agg. [AGZD](#) utilizes an approach of taking the Agg and then overlaying a short position in [Treasury](#) futures to target a duration of zero years. Thus, the investor is provided with a "long" portfolio that is representative of the Agg but without the [duration](#) of 6.6 years.

The above table offers a snapshot of how [AGZD](#) has fared versus the benchmark during the two most recent noteworthy rising rate periods for the UST 10-Year yield. In each case, the UST 10-Year yield rose in excess of 100 [basis points \(bps\)](#). As you can see, [AGZD](#) registered positive readings while the Agg was producing rather visible negative performances.

## Conclusion

The divergent results in the highlighted rising rate periods underscores how [AGZD](#) could potentially serve as an effective pairing with one's core bond holding, acting as a counterweight to duration while also maintaining an [investment-grade](#) profile.

## Important Risks Related to this Article

**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. Standardized performance for AGZD is available [here](#).**

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

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. The Fund seeks to mitigate interest rate risk by

taking short positions in U.S. Treasuries (or futures providing exposure to U.S. Treasuries), but there is no guarantee this will be achieved. 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.

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. The Fund may engage in "short sale" transactions of U.S. Treasuries where losses may be exaggerated, potentially losing more money than the actual cost of the investment, and the third party to the short sale may fail to honor its contract terms, causing a loss to the Fund. 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. 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 certain Funds, they may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

#### **Related Blogs**

- + [Aligning the Stars in Fixed Income](#)
- + ["Zero"ing in on a Rate-Hedged Solution](#)

#### **Related Funds**

- + [WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund](#)
- + [WisdomTree Interest Rate Hedged High Yield Bond Fund](#)
- + [WisdomTree Floating Rate Treasury Fund](#)

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](http://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, Kara Marciscano, 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

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

**Hedge** : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

**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.

**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.

**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.

**Basis point** : 1/100th of 1 percent.

**Investment Grade** : A rating given to a municipal or corporate bond. It is a relatively favorable rating by either Moody's or Standard & Poor's indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance.