WHAT THE WORLD NEEDS NOW IS INCOME, SWEET INCOME

Scott Welch — Chief Investment Officer – Model Portfolios
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This article is relevant to financial professionals who are considering offering asset allocation 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.

What the world needs now is love, sweet love
It's the only thing that there's just too little of

What the world needs now is love, sweet love,
No, not just for some but for everyone.

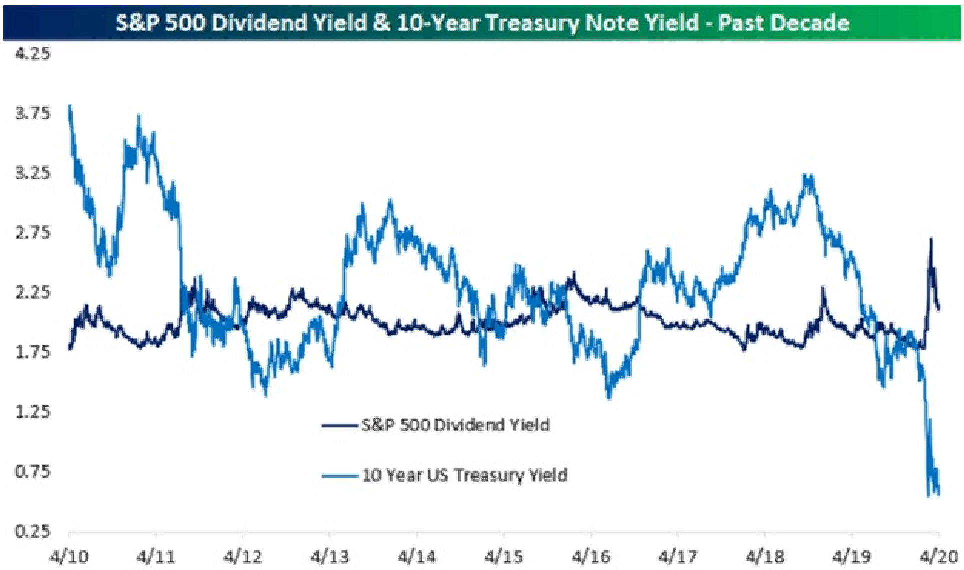
(From "What the World Needs Now," written by Burt Bacharach and Hal David, performed by Dionne Warwick, 1965)

From a global pandemic perspective, we could easily substitute Vaccines, Sweet Vaccines into this blog title and it would be as relevant. But this is an investment blog.

If you have read the blogs of my WisdomTree colleague Kevin Flanagan, or listened to the weekly Market Volatility Update series of conference calls conducted by Wharton Professor and WisdomTree Special Advisor Dr. Jeremy Siegel, you know that we are of the opinion that interest rates are going to be low for a long time. Which is not to suggest they will not go up from their current levels (we think they will, at least nominally), but we think relatively low real rates will be with us for quite a while.

This has profound implications on the ability of a traditional 60/40 (60% equity/40% fixed income) portfolio to generate current income. At the same time, our national demographics are evolving—we are getting older as a nation—and a large majority of investors face a retirement that could be longer than they anticipated. Even a "normalized" rise in interest rates would not be sufficient to fund retirement without a higher contribution from equities (either through yield or capital appreciation) in most portfolios.

Consider this recent comparison between the yield on the S&P 500 index and the 10-Year U.S. Treasury:



Sources: SeekingAlpha.com, Bespoke Investment Group, as of 4/22/20. You cannot invest in an index.

This difference between the yield on the S&P 500 and the 10-Year U.S. Treasury is both unusual and the highest it has been in more than 40 years:

Source: SeekingAlpha.com, Bespoke Investment Group, as of 4/22/20. You cannot invest in an index.

Advisors can attempt to enhance income by taking on greater duration or credit risk, but that may not be optimal if they view the fixed income allocation as the "safe" portion of the portfolio.

In the face of this anticipated lower-for-longer interest rate regime, WisdomTree manages three yield-focused model portfolios. The models attempt to generate enhanced current income by way of equities and other asset classes, while respecting the hedging aspect of the fixed income portfolio.

The first is the **WisdomTree Global Dividend Model**, which is a globally diversified all-equity portfolio designed to maximize current dividend yield while managing risk.

The second is the **WisdomTree Global Multi-Asset Income Model**, which attempts to maximize income while managing risk by using equities, income strategies and other less traditional sources of current income (e.g., preferreds, MLPs, and option-based strategies).

Finally, we offer our newly launched **Siegel-WisdomTree Longevity Model**, developed in close collaboration with Wharton Professor Dr. Jeremy Siegel. It was designed explicitly as an attempt to "build a better mousetrap" than the traditional 60/40 portfolio with respect to current income generation and an improved longevity risk profile by allocating more heavily to yield-focused equities.

As a reminder, all WisdomTree model portfolios are diversified by asset class, risk factor and sector, are open architecture (i.e., they include both WisdomTree and third-party investment strategies), and charge no portfolio strategist fee.

In closing, we believe we have entered a new market regime, one marked by increased volatility, potentially lower equity and bond market returns, and lower interest rates. In this new environment, what the world needs now are solutions that can help solve specific advisor objectives and pain points.

WisdomTree's *outcome-focused* model portfolios are designed to do exactly that, and *no, not just for some, but for everyone*.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Diversification does not eliminate the risk of experiencing investment losses. Using an asset allocation strategy does not assure a profit or protect against loss.

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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.

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.

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

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.

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

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

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