"BARBELL"ING CAN GET THE JOB DONE

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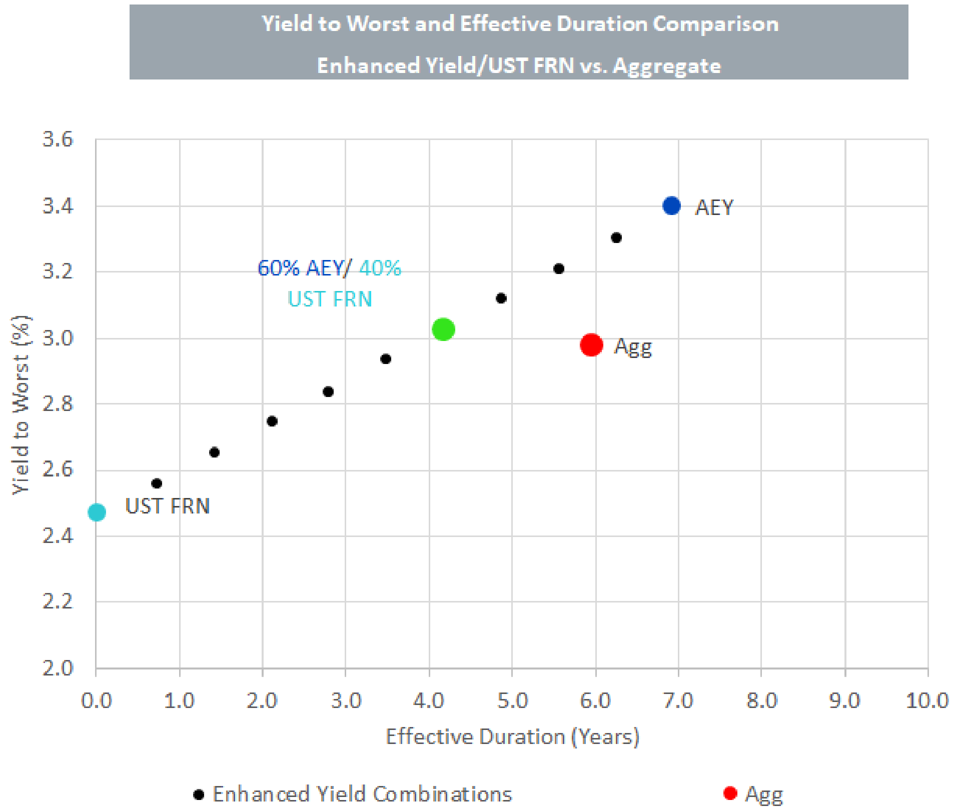
Readers of our blog will probably be familiar by now with a fixed income strategy we advocate known as the "barbell." We first broached the subject in mid-August of last year and revisited the approach in February. Now that we've entered the middle month of Q2, I thought it would be useful to provide a quarterly update. In the aftermath of another good employment report, we continue to conclude that "barbell"ing can help get the job done for fixed income investors.

As a reminder, the two "weights" in our barbell are the Bloomberg Barclays U.S. Aggregate Enhanced Yield Index (AEY) and the Bloomberg U.S. Treasury Floating Rate Bond Index (UST FRN). The latter index (UST FRN) serves as the short-duration weight of the barbell and is based on the 2-Year Treasury floating rate note. AEY is a yield-enhanced index that reweights the sectors of the Bloomberg Barclays U.S. Aggregate Bond Index (Agg) and serves as the longer-duration weight.



Source: Bloomberg, as of 5/01/19. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

For definitions of terms in the chart, please click here.

The accompanying graph illustrates how an investor can implement various allocations between these two weights of the barbell in order to pursue the desired result and, in the case of our analysis, compare this result to the Agg. As the reader may recall, the focus about nine months ago was on a 70%-AEY/30%-UST FRN combination, but in February, we updated the pairing to a 60%-AEY/40%-UST FRN mix, and this blend remains in effect.

As of this writing, the 60%-AEY/40%-UST FRN blend offers a yield of 3.03%, or five basis points (bps) above the Agg, and it cuts the duration by 1.8 years versus the Agg. In terms of its component makeup, this barbell is over-weight government/government-related by 9% and over-weight investment-grade (IG) corporate bonds by 3% as compared to the Agg. Within the IG space, BBBs carry a modest 3% over-weight as well.

Conclusion

The WisdomTree Yield Enhanced U.S. Aggregate Bond Fund (AGGY), which seeks to track the Bloomberg Barclays U.S. Aggregate Enhanced Yield Index, and the WisdomTree Floating Rate Treasury Fund (USFR), which seeks to track the Bloomberg U.S. Treasury Floating Rate Bond Index, can be utilized as the two weights discussed here. The barbell strategy laid out in this blog post offers fixed income investors a strategic solution that is designed to help navigate the choppy waters that could potentially loom ahead, without making a "high-conviction bet" on where rates are headed in this uncertain landscape. On a final note, recent rate trends have brought a 50/50 mix into possible consideration.

Perhaps for the next barbell update—we'll see.

Unless otherwise noted, data source is Bloomberg, as of May 1, 2019.

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Bloomberg Barclays U.S. Aggregate Enhanced Yield Index : a constrained, rules-based approach that reweights the sector, maturity, and credit quality of the Barclays U.S. Aggregate Index across various sub-components in order to enhance yield.

Bloomberg U.S. Treasury Floating Rate Bond Index : A rules-based, market-capitalization-weighted index engineered to measure the performance of floating rate U.S. Treasury notes.

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.

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.

BBB- : Standard & Poor's credit rating that implies the borrower has adequate capacity to meet financial commitments, but may be more vulnerable to adverse economic conditions. This rating represents the lowest level of investment-grade.