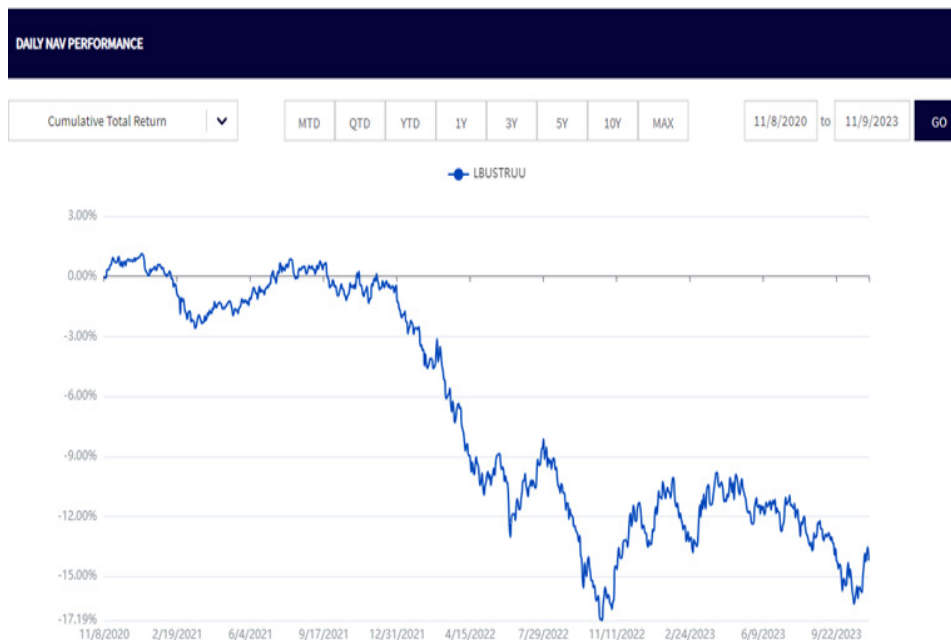


HARVESTING LOSSES INTO A FIELD OF OPPORTUNITY

Kevin Flanagan – Head of Fixed Income Strategy
11/15/2023

As the calendar pages continue to dwindle here in 2023, investors may want to take stock of their fixed income portfolio and consider how to position for the new year. One input to consider is whether any of your holdings could be headed for a loss for the current year. While we are not tax advisors, a strategy that investors have employed in the past and may want to consider now is [tax-loss harvesting, if applicable, and then reinvesting into solutions](#) that can help position your bond portfolio for what may lie ahead in 2024.



Source: WisdomTree, as of 11/10/23. You cannot directly invest in an index. Past performance is not indicative of future results. LBUSTRUU = Bloomberg US Agg Total Return Value Unhedged USD Index.

Go to the Core

Specifically, within the fixed income arena, a good place to start the portfolio review process is with one's core holding. Typically, this core holding is either the [Bloomberg U.S. Aggregate Index \(the Agg\)](#) or somehow tied or referenced to it. During pre-COVID-19 days, the Agg enjoyed many years of positive performance, but more recently, the string of years in the plus column has come to an end. In fact, calendar year 2022 was arguably its worst year on record in terms of performance.



Source: WisdomTree, as of 11/10/23. You cannot directly invest in an index. Past performance is not indicative of future results. LBUSTRUU = Bloomberg US Agg Total Return Value Unhedged USD Index.

That brings us to where the Agg stands thus far in 2023. As you can see, after a volatile first eight or nine months to begin this year, performance has once again dipped into negative territory, and unless there is a bond market rally of consequence to end this year, it would appear as if the Agg could be in the negative column yet again.

So, What's a Bond Investor to Do?

This is where repositioning for 2024 comes into play, where an investor could consider selling their current "Agg-like" position for tax loss harvesting and reallocate the funds accordingly. Based on our rate outlook of "high for longer" and the attendant heightened uncertainty that surrounds Fed policy, the time-tested [barbell](#) strategy comes into play. The barbell approach offers bond investors flexibility on the "rate call" while also providing potential income opportunities, given the "new" regime for fixed income yields.

What Should the Barbell Look Like?

In my opinion, investors should be using the "barbell" to achieve their overall fixed income [duration](#) and income needs. As a result, a combination of intermediate/core and ultra-short/short duration seems appropriate.

Our "in-house" [barbell](#) consists of the [WisdomTree Yield Enhanced U.S. Aggregate Bond Fund \(AGGY\)](#) at one end and the [WisdomTree Floating Rate Treasury Fund \(USFR\)](#) as the other "weight." This barbell offers a core strategic solution designed to help fixed income investors navigate the uncharted waters ahead without making a high-conviction bet on where Treasury yields may ultimately be headed.

Important Risks Related to this Article

AGGY: 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. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

USFR: There are risks associated with investing, including possible loss of principal. Securities with floating rates can be less sensitive to interest rate changes than securities with fixed interest rates, but may decline in value. The issuance of floating rate notes by the U.S. Treasury is new and the amount of supply will be limited. Fixed income securities will normally decline in value as interest rates rise. 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. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile

Neither WisdomTree nor its affiliates nor Foreside Fund Services, LLC, nor its affiliates provide tax advice. All references to tax matters or information provided here are for illustrative purposes only and should not be considered tax advice and cannot be used for the purpose of avoiding tax penalties. Investors seeking tax advice should consult an independent tax advisor.

Related Content

+ [Capital Gains & Tax Analysis Tool](#)

For the top 10 holdings of AGGY please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/fixed-income/aggy>

For the top 10 holdings of USFR please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/fixed-income/usfr>

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.

Related Blogs

+ [ETFs: A Smart Choice for Tax-Loss Harvesting](#)

+ [Just How Tight Are Financial Conditions Anyway?](#)

+ [Fed Watch: In a Holding Pattern](#)

Related Funds

+ [WisdomTree Yield Enhanced U.S. Aggregate 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)

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, 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

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.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

barbell: The barbell is an investment strategy applicable primarily to a fixed income portfolio.

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.