

# GIVING CREDIT WHERE IT'S DUE

Kevin Flanagan — Head of Fixed Income Strategy

04/14/2021

Although most [Treasury yields](#) have moved visibly higher thus far in 2021, the absolute level of rates remains historically low. That quandary still leaves investors searching for yield.

Typically, fixed income investors turn to the U.S. credit markets in such a scenario, with [investment-grade \(IG\)](#) and [high-yield \(HY\)](#) corporate bonds filling the need. However, the successful [monetary policy](#) approach of the [Federal Reserve \(Fed\)](#) in response to last March's sell-off has brought [corporate spread](#) levels back to pre-pandemic readings, leaving many investors still searching for income opportunities.

There is another outlet investors could consider on this front: emerging markets corporate debt. Often, when discussing emerging markets debt, the conversation turns to questions surrounding local currency, or non-U.S. dollar (USD) based fixed income investments. The [WisdomTree Emerging Markets Corporate Bond Fund \(EMCB\)](#) offers investors an [actively managed](#) strategy that invests in globally operating companies that are headquartered in emerging markets and issue debt in USD. Thus, investors are offered a different vehicle for income without the currency risk.

Another interesting attribute of EMCB is its credit quality make-up. This approach is a blend of both investment-grade and high-yield, but the weightings are tilted more toward IG than HY, with a roughly 60/40 split.

Let's see how EMCB stacks up with U.S. IG and HY in terms of yield and duration:

- EMCB: average [yield to maturity](#) 3.92%; [duration](#) 4.77 years
- [Bloomberg Barclays U.S. Aggregate Corporate Index](#): yield to worst 2.20%; duration 8.57 years
- [Bloomberg Barclays U.S. Corporate High Yield Index](#): [yield to worst](#) 3.99%; duration 3.77 years<sup>1</sup>

To recap, EMCB offers considerably more yield (+172 [basis points](#)) than U.S. IG, but with far less duration (-3.8 years), while for U.S. HY, the yields are very similar with only one year more in duration. And remember, with respect to the HY comparison, EMCB has a credit profile that tilts toward investment grade. In other words, it could be argued that an investor is offered a comparable yield, but with a better credit composition.

## Conclusion

When searching for yield, especially within the context of the present fixed income landscape, we continue to emphasize the importance of following a prudent approach. With absolute yields and spread readings at their current levels, there's no doubt investors are faced with a challenging income setting. However, we feel EMCB provides investors with a reasonable risk-based strategy to complement a broader fixed income portfolio.

<sup>1</sup>Sources: WisdomTree and Bloomberg, as of 4/8/21

## Important Risks Related to this Article

For standardized performance and the SEC-30 Day Yield of the Funds in the chart, please click [here](#).

**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. Performance data for the most recent quarter-end and month-end is available at [wisdomtree.com](#).**

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. EST 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 the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. 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 subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall income may decline. 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. Unlike typical exchange-traded funds, there is no index that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objective will depend on the effectiveness of the portfolio manager. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

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, Brian Manby and Scott Welch 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

**Treasury yield** : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

**Investment grade** : An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

**High Yield** : Sometimes referred to as “junk bonds,” these securities have a higher risk of default than investment-grade securities.

**Monetary policy** : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

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

**Active manager** : Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.

**Yield To Maturity** : Portfolio Yield to Maturity represents the weighted average yield to maturity of a Fund’s investments in money market securities and fixed income securities as a specified date. Yield to maturity is the rate of return generated on these securities, assuming interest payments and capital gains or losses as if the instrument is held to maturity. The weighted average yield is calculated based on the market value of each security. The calculation does not incorporate yield from any derivative instruments that are part of the Fund’s investments.

**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.

**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.

**Barclays U.S. Corporate High Yield Index** : Covers the universe of fixed-rate, non-investment-grade corporate debt.

**Yield to worst** : The rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor.

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