GIVING CREDIT WHERE IT'S DUE

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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[1]

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.

[1]Sources: WisdomTree and Bloomberg, as of 4/8/21

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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 securitie.

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.