

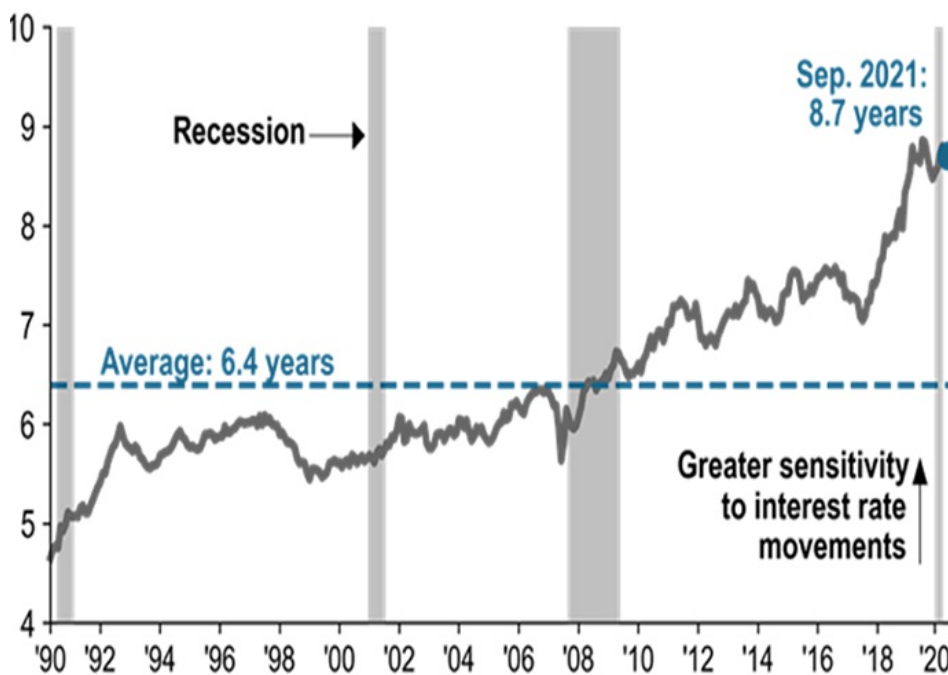
# INTRODUCING THE WISDOMTREE SHORT DURATION FIXED INCOME MODEL

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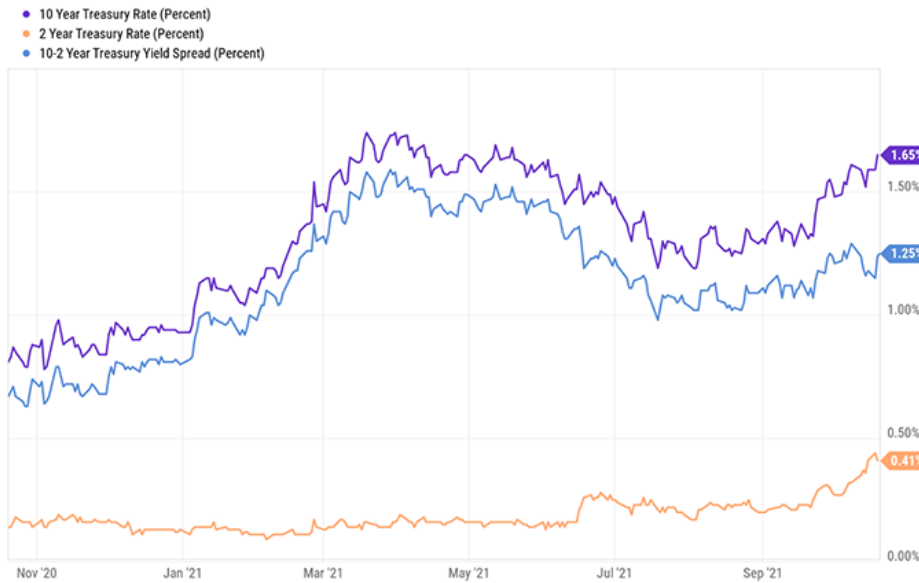
*This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.*

Take a look at the following three charts. The first shows the increasing duration of gross debt in the United States. Gross debt includes government, household and non-financial corporate debt. As a reminder, duration is a measure of the sensitivity of bond prices to changes in [interest rates](#), and it is an inverted relationship—when rates go up, bond prices typically go down. The longer the duration, the more sensitive bond prices typically are to changes in rates.



Sources: Bank for International Settlements (BIS), Barclays, Bloomberg, as of 9/30/21.

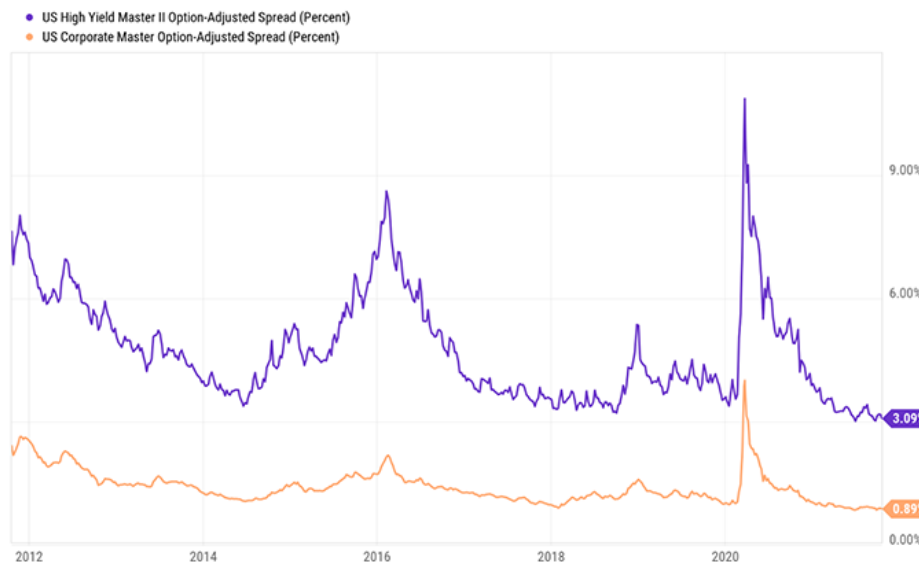
The second chart is the course of interest rates over the past 12 months, especially in the last three—a steady increase, and one that we believe will continue (with the [10-Year Treasury](#) rate perhaps hitting 1.75%–2.00% by year-end).



Oct 21 2021, 12:50PM EDT. Powered by YCHARTS

Source: YCharts, 12-month data through 10/20/21. You cannot invest in an index and past performance does not guarantee future results.

The third chart is the current level of [investment-grade](#) and [high-yield credit spreads](#)—currently trading at multi-year lows.



Oct 21 2021, 12:58PM EDT. Powered by YCHARTS

Source: YCharts, 10-year data through 10/20/21. You cannot invest in an index and past performance does not guarantee future results.

For definitions of terms in the charts, please visit the [glossary](#).

So, rising rates and tight spreads. What is a poor bond investor supposed to do?

**Introducing the WisdomTree Short Duration Fixed Income Model**

WisdomTree recently launched a Short Duration Fixed Income Model, designed specifically to reduce [interest rate risk](#) while not sacrificing too much in terms of yield, relative to the [Bloomberg Barclays U.S. Aggregate Bond Index](#). It can be used as a stand-alone fixed income model or as a complementary sleeve to an existing fixed income allocation as a means of reducing duration risk without disrupting existing allocations.

We kept it simple and inexpensive—four tickers that provide [diversification](#) across sectors while maintaining a low duration profile. While a simple construct, the four underlying Funds incorporate some of our most sophisticated thoughts in balancing income opportunities and the risks they entail—from the fundamental screens within our corporate strategies to the prudent approach for enhancing yield embedded in our short core Fund to our leveraging the deep

expertise of the Voya Securitized Debt team in navigating opportunities in the securitized debt markets.

WisdomTree Short Duration Fixed Income Model Portfolio

[Close](#) ^

<b>1.99%</b> Model 12-Month Dividend Yield (As of 09/30/2021)	<b>0.28%</b> Model Expense Ratio	<b>05/31/2021</b> Inception date	<b>100%</b> Fixed Income
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Model Performance | [Model Allocations](#) | Model Exposures | Fund Performance | Fund Details

Ticker	Name	Target Allocations (As of 9/30/2021)
<b>Fixed Income</b>		<b>100.00%</b>
SHAG	WisdomTree Yield Enhanced U.S. Short-Term Aggregate Bond Fund	35.00%
HYZD	WisdomTree Interest Rate Hedged High Yield Bond Fund	25.00%
MTGP	WisdomTree Mortgage Plus Bond Fund	20.00%
SFIG	WisdomTree U.S. Short-Term Corporate Bond Fund	20.00%

Source: WisdomTree Model Adoption Center, as of 9/30/21. 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. Model 12-month yield is calculated using the weighted average trailing 12-month distribution yields of the Fund constituents. Funds inception less than 12 months do not have trailing 12-month dividend yields. Model Expense Ratio refers to the weighted average expense ratios of the Fund constituents.

For standardized and month-end performance of the funds mentioned above click [here](#).

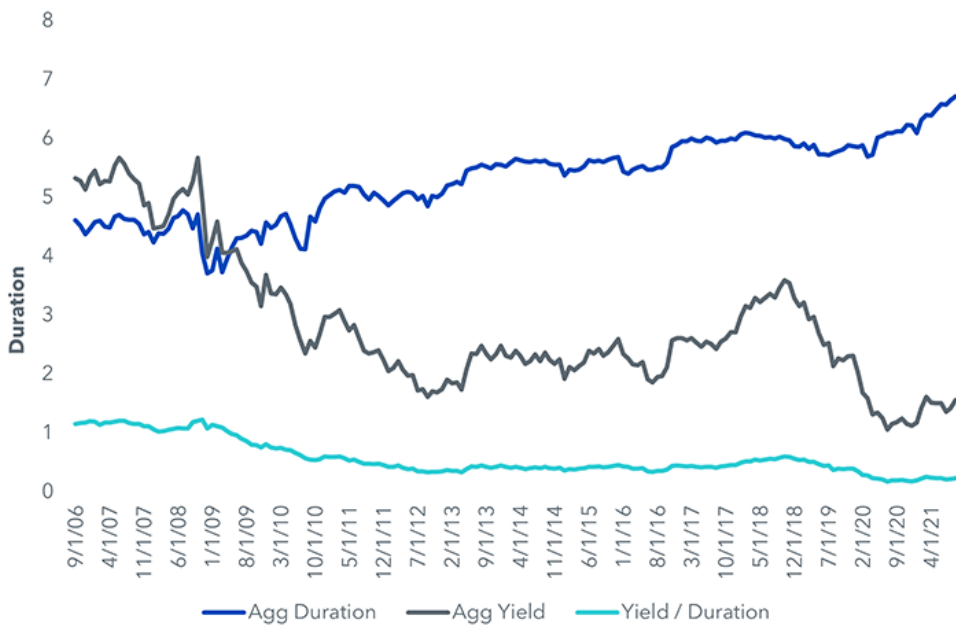
For a prospectus for the funds referenced above click [here](#).

As of September 30, 2021, this Model Portfolio, using the weighted average yield of the four underlying securities (since the Model itself was launched only a short while ago), posted a trailing 12-month yield of 1.99% (with a current yield-to-worst of 1.71%)<sup>1</sup>, while maintaining an average duration of 3.1 years.

In comparison, the Bloomberg Barclays U.S. Aggregate Bond Index currently has an average duration of 6.71 years and is offering a current yield of 1.56%. The pick-up in yield in the short duration Model reflects that it is taking on more credit risk than the index.

Take a look at the following chart. It shows the marginal increase in realized yield as duration increases. Historically, this relationship was roughly 1:1—a 1% pick up in yield for every additional year of duration. That relationship is now at an historical low. Investors simply are not being rewarded at an appropriate level for taking on additional interest rate risk—especially in an environment where we believe rates will continue to grind higher.

**The Trade-Off between Duration and Yield**



Sources: WisdomTree, Bloomberg, data through 9/30/21. You cannot invest in an index and past performance does not guarantee future results.

**Conclusions**

With interest rates likely to move higher and credit spreads historically tight, investors should not be looking to take excessive interest rate risk within their fixed income allocations.

Our new Short Duration Fixed Income Model may be part of the solution. It can potentially help reduce interest rate (duration) risk while generating close-to-index levels of yield.

You can learn more at our [Model Adoption Center](#). We hope you will take a look.

<sup>1</sup> “Yield-to-worst” is a measure of the lowest possible yield that can be received on a bond that fully meets its contractual obligations without defaulting. It takes into account bond provisions that allow the issuer to close out the debt before it matures (two examples are callability and the prepayment option on mortgages).

**Important Risks Related to this Article**

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. High-yield or “junk” bonds have lower credit ratings and involve a greater risk to principal. Please read each Fund’s prospectus for specific details regarding the Fund’s risk profile.

**For retail investors:** WisdomTree’s Model Portfolios are not intended to constitute investment advice or investment recommendations from WisdomTree. Your investment advisor may or may not implement WisdomTree’s Model Portfolios in your account. The performance of your account may differ from the performance shown for a variety of reasons, including but not limited to: Your investment advisor, and not WisdomTree, is responsible for implementing trades in the accounts; differences in market conditions; client-imposed investment restrictions; the timing of client investments and withdrawals; fees payable; and/or other factors. WisdomTree is not responsible for determining the suitability or appropriateness of a strategy based on WisdomTree’s Model Portfolios. WisdomTree does not have investment discretion and does not place trade orders for your account. This material has been created by WisdomTree and the information included herein has not been verified by your investment advisor and may differ from information provided by your investment advisor. WisdomTree does not undertake to provide impartial investment advice or give advice in a fiduciary capacity. Further, WisdomTree receives revenue in the form of advisory fees for our exchange-traded funds and management fees for our collective investment trusts.

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WisdomTree primarily uses WisdomTree Funds in the Model Portfolios unless there is no WisdomTree Fund that is consistent with the desired asset allocation or Model Portfolio strategy. As a result, WisdomTree Model Portfolios are expected to include a substantial portion of WisdomTree Funds notwithstanding that there may be a similar fund with a higher rating, lower fees and expenses or substantially better performance. Additionally, WisdomTree and its affiliates will indirectly benefit from investments made based on the Model Portfolios through fees paid by the WisdomTree Funds to WisdomTree and its affiliates for advisory, administrative and other services.

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.**

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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.

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

**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.

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

**Credit spread** : The portion of a bond's yield that compensates investors for taking credit risk.

**Interest rate risk** : The risk that an investment's value will decline due to an increase in interest rates.

**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.

**Diversification** : A risk management strategy that mixes a wide variety of investments within a portfolio.