# INCOME, INCOME, INCOME!

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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.*

*"Well, all I hear all day long at school is how great Marcia is at this or how wonderful Marcia did that…Marcia, Marcia, Marcia!"*

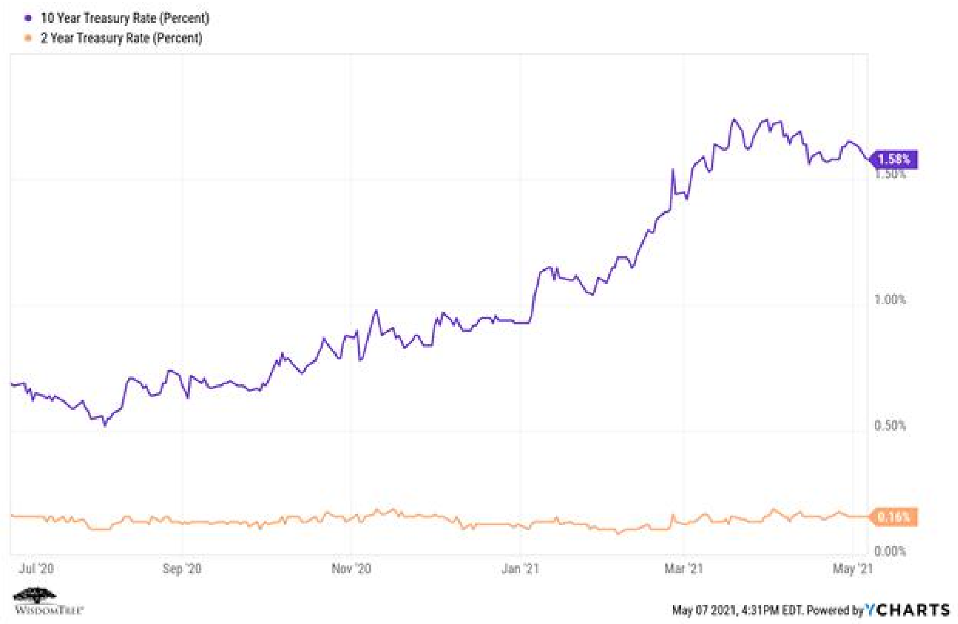
*(Eve Plumb as Jan Brady on "The Brady Bunch," 1971)*

We last looked at our income Model Portfolios in March. At that point in time, the 10-Year U.S. Treasury yield had finally reached the S&P 500 dividend yield for the first time in more than a year. Here we are, two to three months later, and every client or prospect we have is asking about generating risk-controlled yield in the current market environment. In response, we recently launched HYIN, our alternative credit ETF.

But we also offer several yield-oriented Model Portfolios, specifically our **Global Dividend**, **Global Multi-Asset Income** and **Siegel-WisdomTree Longevity** models. Given our current yield-starved market regime, let's check in with them. Financial professionals can find details on all these models via our Model Adoption Center ("MAC").

**Rates and Credit Spreads**

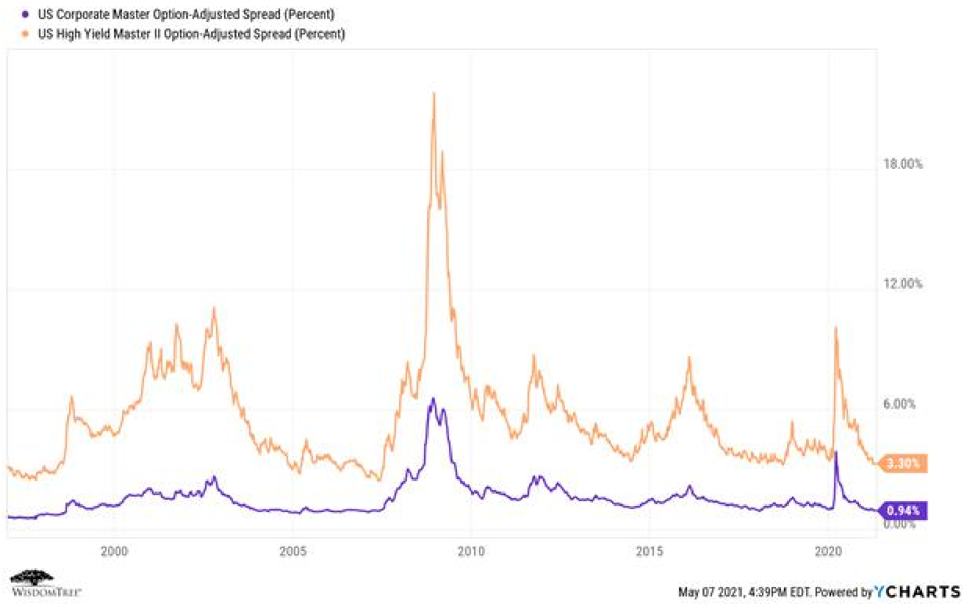
Let's start with rates and credit spreads. After rising sharply over the first two to three months of the year, U.S. interest rates have stabilized over the past several weeks.




Source: YCharts, data from 7/1/20–5/6/21. You cannot invest in an index, and past performance does not guarantee future results.

We continue to believe that rates will "grind higher" as the economy improves, but the rapid increases we saw earlier in the year appear to have abated, for now.

At the same time, credit spreads continue to "grind tighter" and trade at the "tights" of their pre-pandemic ranges.




Source: YCharts, as of 5/6/21. You cannot invest in an index, and past performance does not guarantee future results.

So where does that leave us? Because of aggressive price appreciation in the stock market, dividend yields have also fallen. Using the above indicated Treasury rates and "OAS" credit spreads as a "sample" outcome, here are indicative yields available in the equity and credit markets:

| Instrument | 10-year Treasury | IG Credit Spread | HY Credit Spread | Total Current Yield |
|---|---|---|---|---|
| IG Bonds | 1.58% | 0.94% | | 2.52% |
| HY Bonds | | | 3.30% | 4.88% |
| S&P 500 Dividend Yield | | | | 1.36% |
| ACWI ex-US Dividend Yield | | | | 2.18% |

YCharts, S&P, MSCI, data through 4/30/21. Yields are approximate and security specific. Investment-Grade refers to bonds with a BBB- or higher credit rating, which are represented by The Bloomberg Barclays U.S. Aggregate Bond Index. High-Yield refers to bonds with a credit rating below BBB-, which are represented by The Bloomberg Barclays High Yield Index. You cannot invest in an index and past performance does not guarantee future results.

Not much to go on for income-focused investors. Many corporations are reinitiating or increasing their dividends and stock buybacks following the pandemic-induced cutbacks, so the yield from equities may improve over the course of the year.

We also think corporate balance sheets are in good shape, so default rates should be reasonably low, and investors can probably feel safe about their coupons.

But the total return picture for fixed income is not great, and we certainly would not recommend "stretching for yield" by taking on excessive duration or credit exposure. That defeats one of the primary purposes for owning bonds to begin with—to hedge equity risk.

**WisdomTree Income-Focused Model Portfolios**

Many of the WisdomTree products have a yield or income "factor tilt" associated with them. Income generation is one of "our lanes" from an investment perspective.

We have three publicly available Model Portfolios designed specifically to optimize current income in a risk-controlled manner: Global Dividends, Global Multi-Asset Income and Siegel-WisdomTree Longevity. In each of these, we focus on yield-producing equity investments versus taking excessive risk in our fixed income allocations. Here are how the yields on those portfolios stack up versus more "traditional" models, as of March 31, 2021.

| Portfolio | Current Yield / Income |
|---|---|
| 60% S&P 500 / 40% IG Bonds | 1.82% |
| 40% S&P 500 / 20% ACWI ex-US / 40% IG Bonds | 1.99% |
| 60% S&P 500 / 30% IG Bonds / 10% HY Bonds | 2.06% |
| 40% S&P 500 /20% ACWI ex-US / 30% IG Bonds / 10% HY Bonds | 2.22% |
| Siegel-WisdomTree Longevity Model | 2.50% |
| 60% WisdomTree Global Dividend Model / 40% IG Bonds | 2.66% |
| WisdomTree Global Multi-Asset Income Model (Moderate) | 3.19% |

Sources: YCharts, WisdomTree, FactSet, through 3/31/21. You cannot invest in an index, and past performance does not guarantee future results.

*Investment-grade and high-yield bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index and the Bloomberg Barclays High Yield Index, respectively. You cannot invest in an index and past performance does not guarantee future results. Model 12-month yield is calculated using the weighted average trailing 12-month distribution yields of the Fund constituents. Funds incepted less than 12 months ago do not have trailing 12-month dividend yields.*

**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 sold, may be worth more or less than their original cost.**

The Model Portfolio performance results shown are theoretical and do not reflect any investor's actual experience with owning, trading or managing an actual investment. Thus, the performance shown does not reflect the impact that economic and market factors had or might have had on decision making if actual investor money had been managed and allocated per the Model Portfolio. Actual performance achieved in seeking to follow the Model Portfolio may differ from the theoretical performance shown for a number of reasons, including the timing of implementation of trades (including rebalancing trades to adjust to Model Portfolio changes), market conditions, fees and expenses (e.g., brokerage commissions, deduction of advisory or other fees or expenses charged by advisors or other third parties to investors, strategist fees and/or platform fees), contributions, withdrawals, account restrictions, tax consequences, and/or other factors, any or all of which may lower returns. While Model Portfolio performance may have performed better than the benchmark for some or all periods shown, the performance during any other period may not have, and there is no assurance that Model Portfolio performance will perform better than the benchmark in the future. Model Portfolio performance calculations assume reinvestment of dividends, are pre-tax and are net of fund expenses.

ETF shares are bought and sold at market price (not NAV) and are not individually redeemable 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.

*For standardized performance of model portfolios in the table, please click the respective model: Siegel WisdomTree Model Portfolio, WisdomTree Global Dividend Model Portfolio, WisdomTree Global Multi-Asset Income Model Portfolio.*

Current Yield/Income refers to the most recently posted 12-month dividend yield, as indicated here.

**Conclusions**

In an income-starved world, there is no free lunch. If you want to generate current income, you must take risk. But we continue to believe the better way to do so is by seeking to generate income via the equity market, and not by taking excessive duration or credit risk.

Our income-focused Model Portfolios are designed for exactly this purpose—"Income, Income, Income!"—but without the teenage angst Jan Brady experienced all those years ago.

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You cannot invest directly in an index.

## DEFINITIONS

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

**Interest rates** : The rate at which interest is paid by a borrower for the use of money.

**Option-adjusted spread (OAS)** : Represents a measure of income. Spread represents the portion of the bond's yield that compensates investors for taking credit risk. OAS adjusts the spread to take into account embedded options within the bond (if any).

**Buyback** : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

**Balance sheet** : refers to the cash and cash equivalents part of the Current Assets on a firms balance sheet and cash available for purchasing new position.

**Yield** : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

**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.

**Credit risk** : The risk that a borrower will not meet their contractual obligations in conjunction with an investment.