

AUSTRALIAN BONDS HAVE OUTPERFORMED IN 2012; CHINA BELIEVES THIS TREND COULD CONTINUE

Rick Harper — Chief Investment Officer, Fixed Income and Model Portfolios
08/22/2012

Australian bonds, like other top-rated government debt, have pushed through all-time lows in yields as investors search for high-quality debt in the face of economic uncertainty in Europe. The Australian dollar, while hardly moving in a straight line, has appreciated nearly 3% against the U.S. dollar in the first seven months of the year (New Zealand, the top developed market performer, has appreciated over 4%).¹ As we [previously discussed](#), investors could consider gaining exposure to Australia through the WisdomTree Australia & New Zealand Debt Fund (AUNZ). More recently, it was noted in the *Wall Street Journal* that China's central bank is looking to invest not only in Australian government bonds but also in the debt of regional governments, the so-called semi-government market. Similar to the municipal market in the United States, capital raised by state governments in Australia helps fund public infrastructure investments and effectively manage state balance sheets. In October 2011, the WisdomTree Dreyfus New Zealand Dollar Fund was converted to the [WisdomTree Australia & New Zealand Debt Fund](#). Using a structured investment process, the Fund buys bonds denominated in Australian and New Zealand dollars. Given the significant size difference between the two economies, the Fund uses gross domestic product (GDP) to target its investment mix (currently 88% Australia, 12% New Zealand). To gain exposure to Australian debt, the Fund seeks to invest in equal proportions across Australian government, semi-government and [supranational](#) issuers. While government yields have moved through all time lows, semi-government and supranational bonds have historically provided attractive risk-adjusted yield enhancement, with limited sacrifice in credit quality (semi-government bonds in AUNZ are currently rated AAA or AA+ by Standard and Poor's²). Given the long-term focus of China's investment horizon, this move by the Chinese government, should it occur, could provide a steady investment flow into the semi-government market, helping to support prices. As of July 31, the [AUNZ portfolio yields](#) 3.28% with a duration of 3.58 years. Compared to other high-credit-quality bonds, Australia and New Zealand could provide investors with a solid opportunity for higher yields as a portion of their developed market bond portfolio.

Learn more about [WisdomTree's Fixed Income ETFs](#). ¹Source: Bloomberg, 2012. ²AAA: extremely strong capacity to meet financial commitments. Highest rating. AA: very strong capacity to meet financial commitments.

Important Risks Related to this Article

Past performance is not indicative of future results. There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. 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. The Fund focuses its investments in Australia and New Zealand, thereby increasing the impact of events and developments in Australia and New Zealand that can adversely affect performance. 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. 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.

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)

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.