

# GLOBAL FIXED INCOME: PUTTING A BOW ON 2017

Kevin Flanagan — Head of Fixed Income Strategy

01/24/2018

One month into the New Year and we've already seen some interesting—some might even say unexpected—developments in the bond market. Before we get too far into 2018, I thought it would be a useful exercise to offer a final review of how the major fixed income asset classes fared for 2017, in a sense providing some frame of reference for this year's possibilities.

Perhaps the biggest surprise was found yet again in the [U.S. Treasury \(UST\)](#) market, specifically toward the back end of the [curve](#). After posting a modest red-ink figure of -0.14% in 2016 (utilizing the Citi 10-Year Treasury Benchmark On-the-Run Index), the UST 10-Year note rebounded to register a total return in the plus column of +2.13%, defying expectations in the process. Indeed, following the 2016 presidential election, the overwhelming sentiment was that this rate instrument would have to finish the year higher in yield, but instead it closed out nearly 30 [basis points \(bps\)](#) below consensus forecasts (the fourth year in a row this happened).

Around the globe, two other closely watched developed world bond markets (Germany and Japan) did not share the U.S. experience. To be sure, [10-year German bund yields](#) actually rose last year, helping to produce a -0.81% shortfall, while in Japan the same maturity registered an essentially unchanged performance (German and Japan generic government 10-year yield indexes).

## Total Returns

	2017	2016
2-Year U.S. Treasury Note	0.21%	0.63%
10-Year U.S. Treasury Note	2.13%	-0.14%
10-Year German Bund	-0.81%	4.35%
10-Year Japanese Government Bond	0.29%	1.63%
Barclays Aggregate	3.54%	2.65%
Investment Grade Corporate	6.42%	6.11%
High Yield Corporate	7.50%	17.13%
Emerging Market US\$ Total Return	9.92%	9.64%
EM Local Debt	15.21%	9.94%

Source: Bloomberg, as of 12/29/2017. Past performance is not indicative of future results.

The U.S. [corporate bond](#) market came in on the plus side of the ledger, with both [investment grade \(IG\)](#) and [high yield \(HY\)](#) posting back-to-back positive readings for 2016 and 2017. The IG performance basically matched the prior year's positive return (+6.42% vs +6.11%, according to the [Bloomberg Barclays U.S. Aggregate Corporate Total Return Value Unhedged Index](#)). The HY sector put in another robust showing (+7.50%), especially considering it was coming off an incredible total return of +17.13% (as measured by the Bloomberg Barclays U.S. Corporate High Yield Total Return Index Unhedged) in 2016.

The emerging market (EM) debt space experienced the best performance within the fixed income universe during 2017, continuing to build on the positive momentum seen for 2016. To be sure, EM local debt produced a total return of over +15% (J.P. Morgan Government Bond Index – Emerging Markets Global Diversified Index), after posting nearly +10% for all of 2016. Interestingly, these consecutive positive returns have represented a complete turnaround from where EM local debt was in 2015, when it printed a hefty shortfall of almost -15%.

## Conclusion

Given where many fixed income asset classes currently reside in terms of relative value, it would seem difficult to expect such robust repeat performances as are highlighted in this blog post. Fixed income investors will more than likely need to be a bit more discerning in their investment approach and should consider the potential benefits of fundamental—or smart beta—fixed income strategies, a field where WisdomTree is a pioneer.

***Unless otherwise noted, data source is Bloomberg as of December 29, 2017.***

### Important Risks Related to this Article

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.

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, 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.

## **DEFINITIONS**

**Treasury** : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

**Curve** : Refers to the yield curve. Positioning on the yield curve is important to investors, especially during non-parallel shifts.

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

**German 10-year bund** : a debt instrument issued by the German government with an original maturity of 10 years.

**Corporate Bonds** : a debt security issued by a corporation.

**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.

**Barclays US Agg Corporate Total Return Value Unhedged USD** : The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).