

# A FIXED INCOME STATE OF AFFAIRS

Kevin Flanagan — Head of Fixed Income Strategy

08/12/2020

With the dog days of August upon us, I thought it would be useful to take a step back to provide some thoughts and analysis on the current state of affairs in the fixed income arena.

It all begins with economic data. Up to this point, the money and bond markets have seen opposite ends of the spectrum on this front. As we've discussed, [U.S. Q2 real GDP moved not just deeper into recession territory](#), but the reading was more like a depression. However, reports of a V-shaped recovery have been witnessed in a variety of other releases. Manufacturing and service-related surveys are now back into expansion territory, while Friday's jobs report revealed further improvement on the labor market front. Given the slowed pace of reopenings due to elevated COVID-19 cases, it seems reasonable to expect some deceleration in further progress, but the good news is that progress was still being made in July when these new cases were hitting the headlines. In fact, last week's jobless claims number (a leading indicator) fell by its largest amount in almost two months.

That leads us to the [U.S. Treasury \(UST\)](#) market, and we're learning you can't keep the UST 10-Year down. Last week, the yield fell to a new record low of 0.51% as uncertainty surrounding an additional fiscal stimulus package, escalating U.S.-China tensions and the aforementioned GDP report all provided support. Somewhat under the radar, a potentially important development came from the Treasury's August refunding announcement. The debt managers announced their plan of increasing future supply needs through "longer tenors" (longer-dated maturities) rather than [T-bills](#). As of this writing, there has been minimal reaction, but it will be something to watch going forward, especially if the U.S. economic recovery continues.

What's going on in the U.S. [corporate bond](#) markets, you ask? Credit spreads continue to grind tighter despite the fact that the [Federal Reserve \(Fed\)](#) has not really turned on the spigots in its corporate bond-buying facility. High yield spreads are now below the +500 [basis points \(bps\)](#) threshold, while for [investment grade \(IG\)](#), the differential is around +125 bps, representing an 83% and 90% retracement, respectively, from their March peaks.

## Conclusion

With Labor Day in our sights, the dynamics in the fixed income arena could get interesting. Sure, the usual suspects, such as economic data and Fed/fiscal policy, will have input in the market's pricing mechanism. However, I'm thinking the U.S. election headlines will only begin to heat up and could very well enter into the conversation as well. In terms of fixed income asset allocations, WisdomTree believes the UST [yield curve](#) could steepen, and we position fixed income portfolios to over-weight U.S. credit over rates, while keeping [duration](#) shorter than the benchmark.

***Unless otherwise stated, data source is Bloomberg, as of August 10, 2020.***

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.

**Treasury Bill** : A treasury bill (T-Bill) is a short-term debt obligation backed by the U.S. government with a maturity of one month (four weeks), three months (13 weeks) or six months (26 weeks).

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

**Federal Reserve** : The Federal Reserve System is the central banking system of the United States.

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

**Investment grade** : An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

**Yield curve** : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

**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.