# SHORT DURATION FIXED INCOME MODEL PORTFOLIO: KEEP THE INCOME, LOSE THE VOLATILITY

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Last year was the worst on record for U.S. bond investors.

But we believe there are two important consequences for portfolio construction that came from this challenging market environment.

First, there is "**income back in fixed income**," and with what we believe to be the era of negative interest rates behind us, investors and advisors can once again use bonds as a potential source of yield and return generation in portfolios.

Second, investors are rethinking their approach to the fixed income market. One noteworthy theme of this "re-think" we have observed is a growing demand for bond portfolios with reduced duration risk, or sensitivity to changes in interest rates.

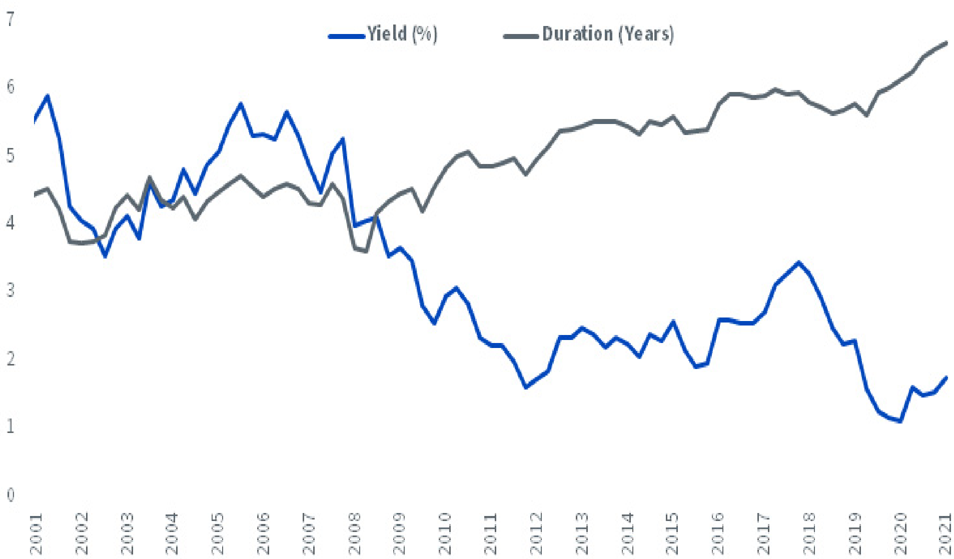
**2022: A Harsh Reminder of Duration Risk**

For the 20-year period ending in 2022, U.S. bond yields generally went one direction, as they were continuously drawn closer to their zero bound.

Over this same period, the interest rate risk of most conventional core bond portfolios quietly ticked higher as bond issuers locked in low interest rates for longer maturities.

Between 2002 and 2022, the duration of the Bloomberg U.S. Aggregate Bond Index rose from 4.5 years to 6.7 years, nearly a 50% increase in interest rate risk!

**Bloomberg U.S. Aggregate Bond Index—Yield and Duration**




Sources: WisdomTree, FactSet. Past Performance is not indicative of future results. You cannot invest directly in an index.

After decades of steady, positive returns from falling yields, the steep losses seen in fixed income portfolios last year certainly caught many investors off guard.

We continue to believe that a diversified, strategic fixed income allocation has a place in most portfolios.

That said, given this recent experience and the maturity profile of mainstream fixed income benchmarks, it's understandable that many advisors are interested in a modified core bond solution with less duration risk.

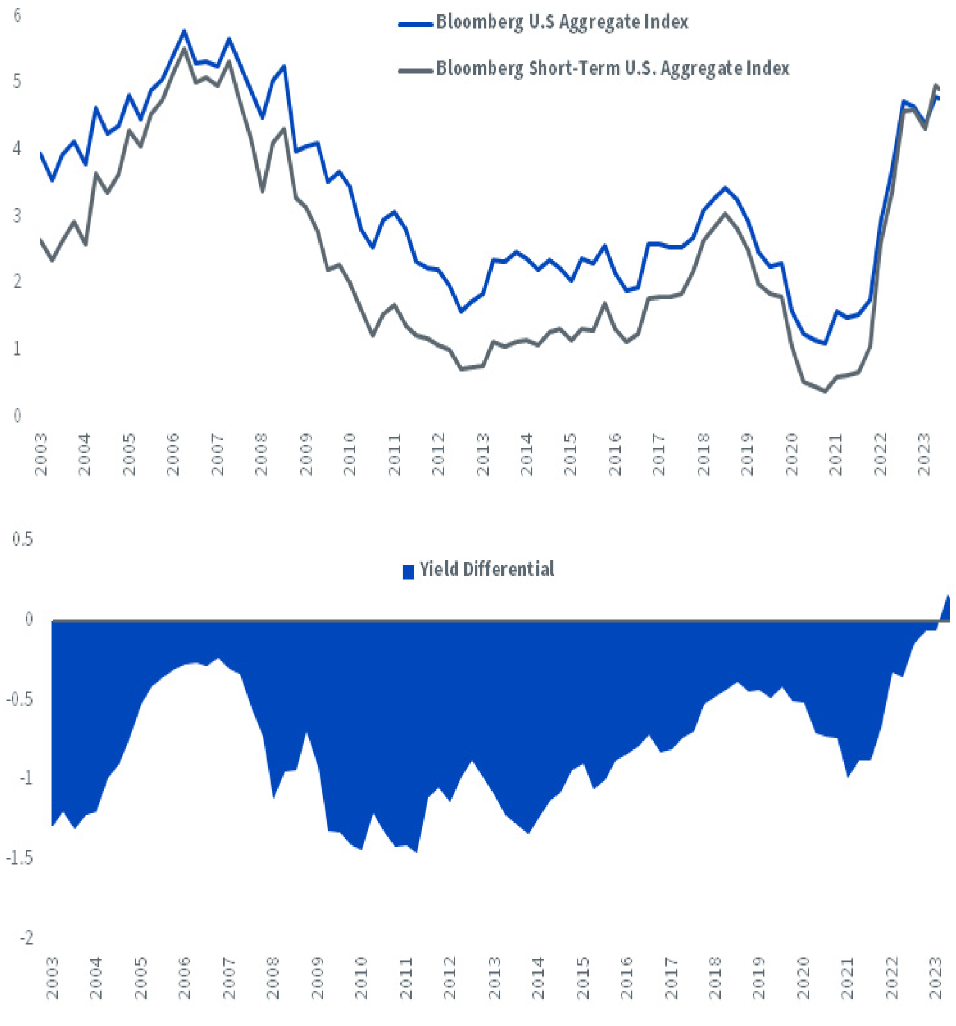
**The Case for a Short Duration Fixed Income Model Portfolio**

Depending on one's investment objectives and risk tolerance, fixed income can play a variety of different roles in a portfolio. Most investors view the asset class as a ballast in times of market stress and a steady, low-volatility income producer in "normal" environments.

Since the global financial crisis, fixed income's role as a reliable income-generator has been challenged. Investors searching for yield were forced to go down in credit quality and/or extend duration (hence, take on incremental interest rate risk) to achieve a reasonable yield within their fixed income portfolios.

However, due primarily to the Fed's increasingly restrictive monetary policy actions over the past year and a half, yields on short duration bonds now meet or exceed those seen at longer maturities.

**Yield to Worst (%): Bloomberg U.S. Aggregate Bond and Short-Term U.S. Aggregate Indexes**




Sources: WisdomTree, FactSet, as of 6/30/23. Past performance is not indicative of future results. You cannot invest directly in an index.

This means that investors today can achieve a reasonable level of income without taking on undue credit or interest rate risk.

This development is a breath of fresh air, and it is logical to see money in motion as investors and advisors reposition their portfolios accordingly.

For those contemplating a change in strategy, the **WisdomTree Short Duration Fixed Income Model Portfolio** can deliver an attractive level of income with significantly less interest rate risk than a conventional core bond strategy.

As a "**building block**" model, investors and advisors can utilize the strategy as a stand-alone fixed income portfolio or as a bond allocation within a broader multi-asset portfolio.

**Diversification, Flexibility and Efficiency**

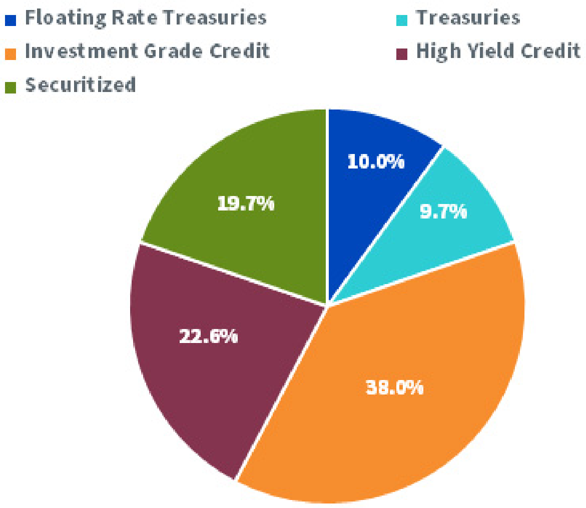
Beyond interest rate risk and income generation, there are fundamental characteristics of a well-designed portfolio that should remain top of mind for investors re-thinking their bond allocation: diversification, flexibility, cost and tax efficiency.

While there is no shortage of attractive fixed income opportunities today, going forward this opportunity set will evolve alongside changes in Fed policy, economic regimes and credit cycles.

We believe that prudent diversification across fixed income asset classes and credit sectors is essential to help reduce concentration risk in any one segment of the market and improve long-term returns.

As we illustrate below, our short duration fixed income Model Portfolio is diversified accordingly.

**Sector Allocation**




Sources: WisdomTree, FactSet, as of 6/30/23. You cannot invest directly in an index.

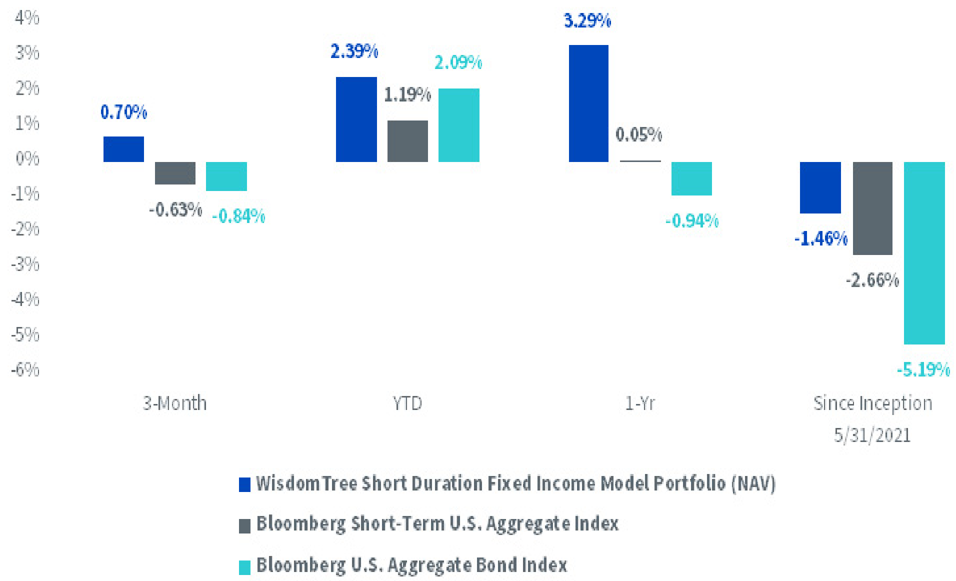
Flexibility to adjust exposures as market conditions change is another benefit to utilizing a model portfolio. Investors in the **WisdomTree Short Duration Fixed Income Model Portfolio** will automatically gain access to the expertise and market views of our entire investment team.

Finally, our Model Portfolios are ETF-focused to optimize both expenses and taxes, and do not charge a strategist fee.

**Performance and Our Fixed Income Outlook**

Since its launch in May 2021, the **WisdomTree Short Duration Fixed Income Model Portfolio** has delivered on its objective, outperforming both the Bloomberg U.S. Aggregate Bond Index and Bloomberg Short-Term U.S. Aggregate Index across all periods.

**Performance as of June 30, 2023**




Sources: WisdomTree, FactSet, as of 6/30/23. 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 underlying Fund performance, including standardized performance and 30-day SEC yield, please click here.***

Looking forward, the outlook for Fed policy remains uncertain. While most market participants believe the Fed has wrapped up its latest rate hike cycle, Powell & Co. have expressed their desire to remain in a wait-and-see mode and assess the upcoming economic and inflation data accordingly.

This persistently hawkish posturing, alongside the fact that core inflation remains well above the Fed's desired target, put us in the "higher-for-longer" camp.

In this environment, interest rate volatility likely persists for the foreseeable future.

For existing core bond investors understandably focused on this significant source of portfolio volatility, the **WisdomTree Short Duration Fixed Income Model Portfolio** seeks to help mitigate duration risk while achieving similar or even greater levels of income.

Important Risks Related to this Article

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You cannot invest directly in an index.

## DEFINITIONS

**Bond** : A fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental).

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

**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.

**Bond yield** : Refers to the interest received from a bond and is usually expressed annually as a percentage based on its current market value.

**Bloomberg Aggregate Bond Index** : The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.