

LOOKING FOR YIELD WHEN RATES ARE RISING

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At first glance, when you look at this blog post's title, you might think it's a bit confusing. However, even though U.S. Treasury (UST) [yields](#) have been making headlines with their year-to-date increases, in absolute terms, yield levels remain historically low. And, as a result, fixed income investors are still looking for income but in a manner that doesn't expose them to excessive rate risk.

Certainly, last week's CPI release unleashed another wave of bond market selling and, perhaps more importantly, created a more "hawkish" outlook for what the [Fed](#) may be contemplating on the [rate hike](#) front. Indeed, as of this writing, the implied probability for [Fed Funds Futures](#) now sees six rate hikes this year, with odds increasing for a 50-[basis point \(bp\)](#) move at the March [FOMC](#) meeting. St Louis Fed President Bullard, a 2022 FOMC voting member, went so far as to say he "favors a 100 bp increase by July 2."

Hypothetical 12-Month Trailing Correlation vs. Bloomberg U.S. Agg Bond Index



Source: Bloomberg, as of 2/11/22. Past performance is not indicative of future results. You cannot invest directly in an index. Correlation: Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction. Bloomberg U.S. Aggregate Bond Index: Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities as well as mortgage- and asset-backed securities.

So, what we do know is that rates are going up. But now comes the harder part about finding yield in a risk-controlled way. This is where alternative credit comes into play.

What is alternative credit? It is debt-based instruments whose yield and/or expected return is higher than investment-grade fixed income securities. It includes a range of securities across a broad universe of borrower segments, such as households, corporations and commercial real estate. Three main segments of alternative credit are business development companies (BDCs), credit-centric [closed-end fund \(CEFs\)](#) and [mortgage real estate investment trusts \(REITs\)](#).

BDCs make loans to small and medium-sized companies and typically invest in first-lien, senior-secured floating rate loans that are issued to private corporations. CEFs are pooled investment vehicles that invest in high-yield bonds, broadly syndicated leveraged loans, collateralized loan obligations, residential and commercial [mortgage-backed securities \(MBS\)](#) and some private credit assets. REITs provide financing for income-producing real estate by purchasing or

originating mortgages/MBS for commercial and residential properties.

WisdomTree has collaborated with Gapstow Capital Partners to create access to the alternative credit asset class. The [WisdomTree Alternative Income Fund \(HYIN\)](#) seeks to track the price and yield performance, before fees and expenses, of the [Gapstow Liquid Alternative Credit Index \(GLACI\)](#).

Due to the underlying nature of alternative credit, it can potentially carry elevated [volatility](#), but it also has a higher yield profile. As of this writing, the [SEC 30-day yield](#) for HYIN came in at 8.41%. In addition, a portion of alternative credit is concentrated to exposures in floating rate notes, which helps to keep GLACI's correlation to interest rates to a minimum (see graph).

Conclusion

In this environment of looming Fed rate hikes, higher [inflation](#) and historically low interest rates, investors face a conundrum when looking for yield. Investors may wish to consider [HYIN](#) as a solution on this front to serve as a complement to their current asset allocations.

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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.

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You cannot invest directly in an index.

DEFINITIONS

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.

Hawkish : Description used when worries about inflation are the primary concerns in setting monetary policy decisions.

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

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Fed fund futures : A financial instrument that let's market participants determine the future value of the Federal Funds Rate.

Basis point : 1/100th of 1 percent.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Closed-end fund : is a collective investment vehicle based on issuing a fixed number of shares which are not redeemable from the fund. New shares/units in a closed-end fund are not created by managers to meet demand from investors. Instead, the shares can be purchased (and sold) only in the market. Closed-end funds are usually listed on a recognized stock exchange and can be bought and sold on that exchange. The price per share is determined by the market and is usually different from the underlying value or net asset value (NAV) per share of the investments held by the fund.

Real estate investment trust (REIT) : Investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.

Mortgage-backed securities : Fixed income securities that are composed of multiple underlying mortgages.

Gapstow Liquid Alternative Credit Index (GLACI) : An equal-weighted index that tracks the performance of 35 "Publicly Traded Alternative Credit Vehicles" (PACs) using an objective, rules-based methodology

Volatility : A measure of the dispersion of actual returns around a particular average level. . . .

SEC 30-Day Yield : The yield figure reflects the dividends and interest earned during the period, after deduction of the Fund's expenses. This is also referred to as the "standardized yield.”

Inflation : Characterized by rising price levels.