FIXED INCOME: A RETURN TO NORMALCY

By Kevin Flanagan, Head of Fixed Income Strategy

THE MACRO OUTLOOK

The Fed appears to be at, or close to, the end of this rate hike cycle. Nevertheless, the policymakers seem intent on keeping monetary policy restrictive for longer than originally expected, with the timing of rate cuts being pushed back to perhaps mid-2024. While inflation has 'cooled', the U.S. economy has not, as a continued firm labor market setting has provided a solid foundation for a surprisingly resilient economic landscape.

Against this backdrop, market participants will more than likely be confronted with a 'higher for longer' U.S. rate setting for the foreseeable future.

FIXED INCOME

The increase in Treasury yields that investors have witnessed has seemingly returned the U.S. bond market to a more 'normal' scenario. The post-financial crisis through the COVID-19 world was not truly representative of where interest rates should reside, and were no doubt distorted by factors such as the Fed's zero interest rate policy, quantitative ease (QE) and negative rates abroad. So, what we are seeing now is what happens when the pendulum ultimately shifts back.

As a result, yields have risen to (normal) levels that a generation of advisors and investors have never seen before, returning fixed income back to its more traditional portfolio role. This development has created an interesting phenomenon: there's "income back in fixed income."

ACTIONABLE IDEAS

+ **USFR – WisdomTree Floating Rate Treasury Fund:** A Treasury-based solution that provides income without the elevated volatility currently in the bond market. Continued restrictive Fed monetary policy well into next year should keep Treasury (UST) floating rate notes (FRNs) as one of the highest yielding UST securities but with only one week in duration.

+ **WFHY – WisdomTree U.S. High Yield Corporate Bond Fund:** A core 'plus' solution which focuses on investors taking advantage of the considerable increase in high yield rates for income needs. This strategy utilizes a quality screen to mitigate default risk/concerns in case of an economic downturn.

+ **AGGY – WisdomTree Yield Enhanced U.S. Aggregate Bond Fund:** An investment grade core fixed income solution that offers yield enhancement vs. the Bloomberg U.S. Aggregate Enhanced Yield Index. This strategy provides a platform for investors to take advantage of a rally in duration if rates fall next year.

Glossary

Bloomberg U.S. Aggregate Enhanced Yield Index: A constrained, rules-based index that reweights the sector, maturity, and credit quality of the Bloomberg U.S. Aggregate Bond Index across various sub-components in order to enhance yield.

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

Floating rate note (FRN): A debt instrument with a variable interest rate.

High yield (HY): Sometimes referred to as “junk bonds,” these securities have a higher risk of default than investment-grade securities.

Investment grade (IG): A rating that signifies a municipal or corporate bond presents a relatively low risk of default.

Monetary policy: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Quantitative easing: A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Treasury (UST): 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.

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.

AGGY: Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. 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. Investing in mortgage- and asset-backed securities involves interest rate, credit, valuation, extension and liquidity risks and the risk that payments on the underlying assets are delayed, prepaid, subordinated or defaulted on. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs.

Please read each Funds' prospectus for specific details regarding the Funds' risk profiles.

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