

A Diversified Commodities Approach for Inflation Concerns

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One of the hallmarks of the newly inaugurated U.S. president's administration is a focus on infrastructure spending. But the U.S. is not alone as a centerpiece in the global economy in its fiscal thrust. We are also getting a fiscal push from Asia. Last year, [Japan embarked on a fiscal expansion program that would span four to five years](#) and put 27 trillion yen to work. China also turned on the fiscal spigots, and we saw companies that supply construction equipment to China take a meaningful turn higher in their share prices.

Due to tightness in the U.S. labor markets, a number of investors are worried we will see inflation pressures. We have seen a surge of inflows toward U.S. inflation-protected bonds in the last six months as a result of these macro drivers.

TIPS Exchange-Traded Fund (ETF) Inflows vs. TIPS Performance (1/8/16–1/13/17)



Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results. A fund's performance, especially for very short time periods, should not be the sole factor in making your investment decision. TIPS = Treasury Inflation-Protected Securities

The return on Treasury Inflation-Protected Securities (TIPS) over the last six months, despite the inflows, has been subpar, to put it mildly—though perhaps a better description is “disappointing.” These bonds have seen negative returns because in addition to increasing expectations for inflation, there was also a

move higher in “real” interest rates. This caused losses on bond funds tracking these indexes. And despite the move higher in rates, the 10-Year real bond yield is still just .40%, well below longer-run averages.¹

Commodities as an Alternative Inflation Hedge

If investors are flocking to TIPS for inflation protection, what are some alternative approaches that might help protect a portfolio? A principal reason investors allocate to commodities is to hedge inflation over time.

Commodities can be quite volatile, even when traded as a diversified basket, and the last five to seven years they have been one of the worst-performing asset classes, alongside emerging market equities.

WisdomTree began one of the more seasoned, diversified, and broad-based commodities strategies at the start of 2016 because, in our research and opinion, this Fund, the [WisdomTree Continuous Commodity Index Fund \(GCC\)](#), tracked one of the most-robust indexes, with one of the best track records for long-only commodities strategies.

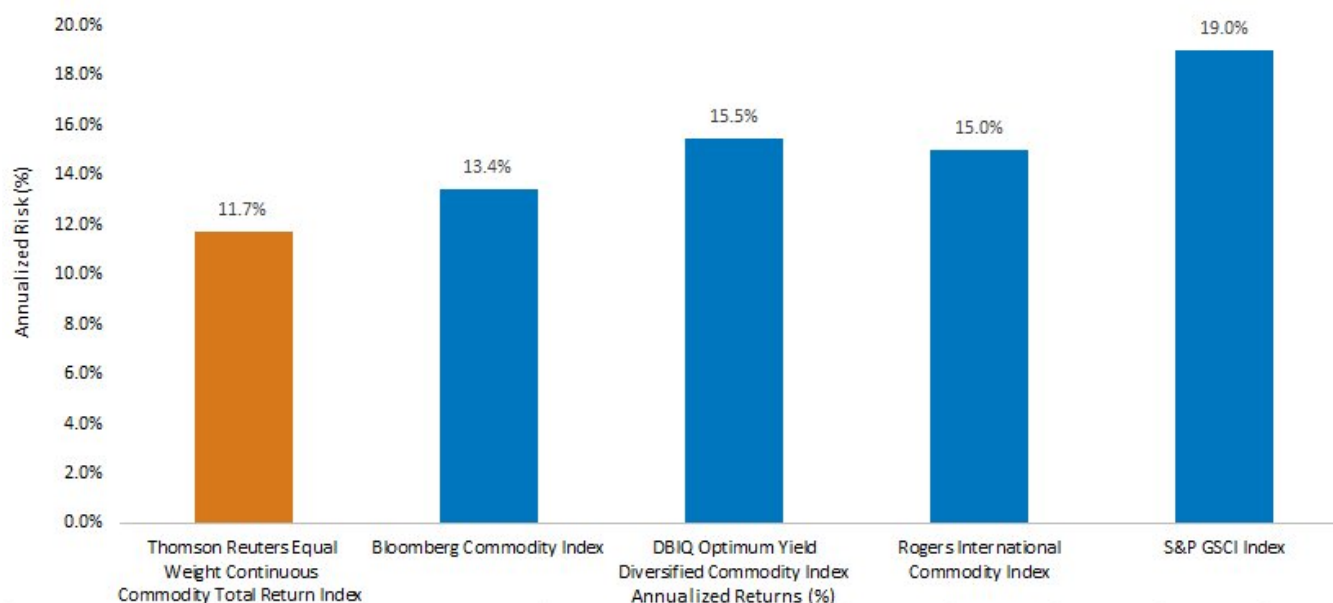
Broad Commodity Exposure and Diversification

The index that GCC tracks, Thomson Reuters Equal Weight Continuous Commodity Total Return Index (CCI-TR), provides meaningful exposure to all four major commodity subgroups—energy, metals, agriculture and softs. It potentially provides better diversification than many other indexes, such as the [S&P GSCI](#), that are over-weight in specific commodities such as energy. Plus, the index that GCC tracks rebalances daily to keep weights constant, while other commodity indexes below rebalance quarterly or annually.

Lower-Volatility Approach

CCI-TR has lower historical volatility than its commodity peer group. When compared to other commodity indexes, this lower volatility is largely attributed to a lower weighting to the volatile Energy sector. Additionally, index positions spanning the near six months of the forward curve tend to reduce volatility and mitigate negative roll yield.

5-Year Volatility–Commodity Index Landscape (12/31/11–12/31/16)

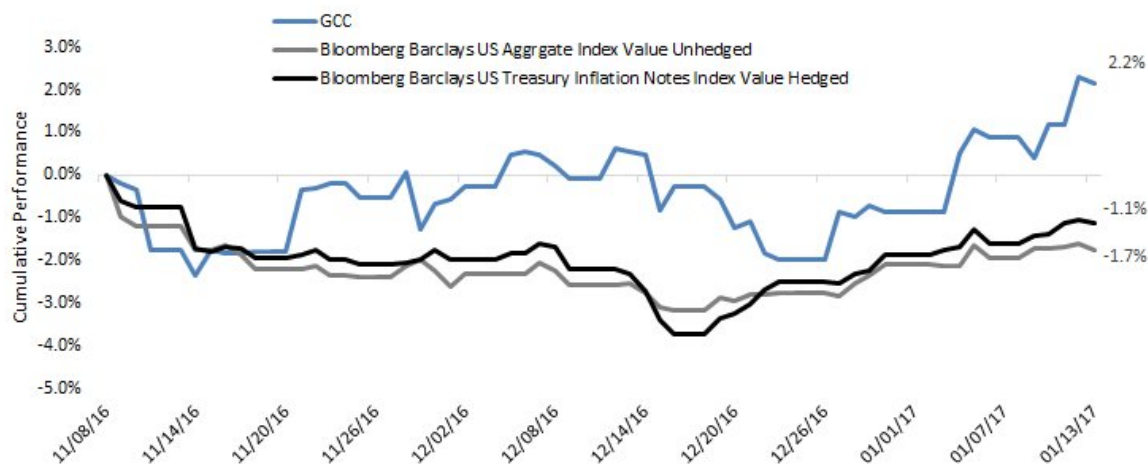


Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

For definitions of indexes in the chart visit our [glossary](#).

Returns since Election

The 10-Year yield has moved up about 60 basis points (bps) since Trump's election. Real rates, offered on the TIPS bonds, initially spiked from just 10 bps before the election to a high of 70 bps in the middle of December. They have since started pedaling back down, and as of January 17th, 2017, they were at .35%. Note that the average 10-Year real rate, before 2010, was over 2.3% and since 2010 has been right around where we are today. Rising bond yields help forward-looking returns but also hurt bond portfolios. Below, you can see that both broad-based bonds and inflation-protected bonds have seen losses since the election while broad commodity strategies have shown positive returns.



Sources: WisdomTree, Bloomberg. Reflects time following U.S. election results, 11/8/16–1/13/17. Past performance is not indicative of future results. You cannot invest directly in an index.

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 redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed 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.

[Please click here for GCC standardized performance.](#)

For definitions of indexes in the chart, visit our [glossary](#).

GCC is a liquid, efficient and relatively lower-fee² way to add and manage commodity exposure. For those investors who think inflation pressures are building and may be looking to inflation hedges like TIPS, we'd encourage another look at GCC.

¹Source: Bloomberg, as of 12/15/16.

²Ordinary brokerage fees apply.

Important Risks Related to this Article

Diversification does not eliminate the risk of experiencing investment losses.

Investments in commodities may be affected by overall market movements, changes in interest rates and other factors such as weather, disease, embargoes and international economic and political developments.

Commodities and futures are generally volatile and are not suitable for all investors.

There are risks associated with investing including possible loss of principal. An investment in this Fund is speculative, involves a substantial degree of risk, and should not constitute an investor's entire portfolio.

One of the risks associated with the Fund is the complexity of the different factors which contribute to the Fund's performance. These factors include use of commodity futures contracts. Derivatives can be volatile and may be less liquid than other securities and more sensitive to the effects of varied economic conditions. The value of the shares of the Fund relate directly to the value of the futures contracts and other assets held by the Fund and any fluctuation in the value of these assets could adversely affect an investment in the Fund's shares. The Fund is not an Investment Company within the meaning of the Investment Company Act of 1940, as amended, and is not subject to the regulations thereunder. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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