

A Passive Income Solution without the Volatility

Published December 4, 2024

Kevin Flanagan

Head of Investment and Fixed Income Strategy

Key Takeaways

- With the 3-Month/10-Year Treasury yield curve inverted, Treasury floating rate notes (FRNs), which are referenced to the weekly 3-Month t-bill auction, offer investors an income advantage without taking on excessive duration risk.
- The [WisdomTree Floating Rate Treasury Fund \(USFR\)](#) has outperformed the aggregate bond benchmark year-to-date, delivering income with significantly lower volatility compared to the broader bond market.
- As interest rates return to more historically normal levels, USFR provides a strategic tool for managing duration risk in fixed income portfolios, even in a potential “higher for longer” rate environment.

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With the U.S. interest rate landscape returning to a more historically normal setting over the last year or so, investors are now presented with a backdrop that hasn't been witnessed in literally more than a decade. As a result, I believe the bond portfolio decision-making process could benefit from taking an active/passive approach from a solution standpoint. In my blog post last week, I highlighted an [active core strategy for fixed income investors to consider](#). This week, I wanted to feature a more passive income solution that comes without the volatility investors have witnessed in the broader bond market over the last couple of years.

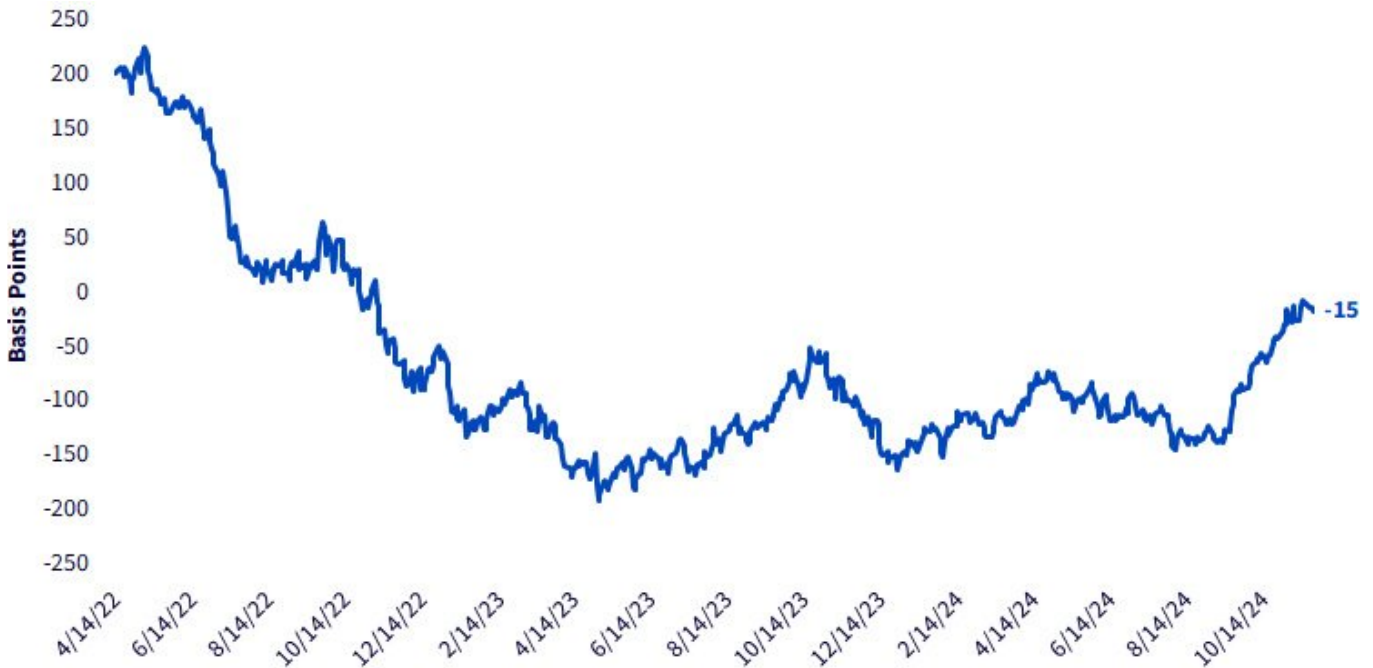
In my opinion, Treasury floating rate notes (FRNs) offer bond investors an approach that can be combined, or “barbelled,” with other fixed income solutions when building a portfolio. Treasury FRNs are backed by the full faith and credit of the U.S. government and are reset with the weekly UST 3-Month t-bill auction and an accompanying spread. The [WisdomTree Floating Rate Treasury Fund \(USFR\)](#) allows investors to invest in this asset class in a user-friendly ETF structure.

Why should investors consider Treasury FRNs ([USFR](#))?

- Looking at figure 1, the 3-Month/10-Year Treasury yield curve is still inverted so investors can attain an income advantage without taking on duration risk

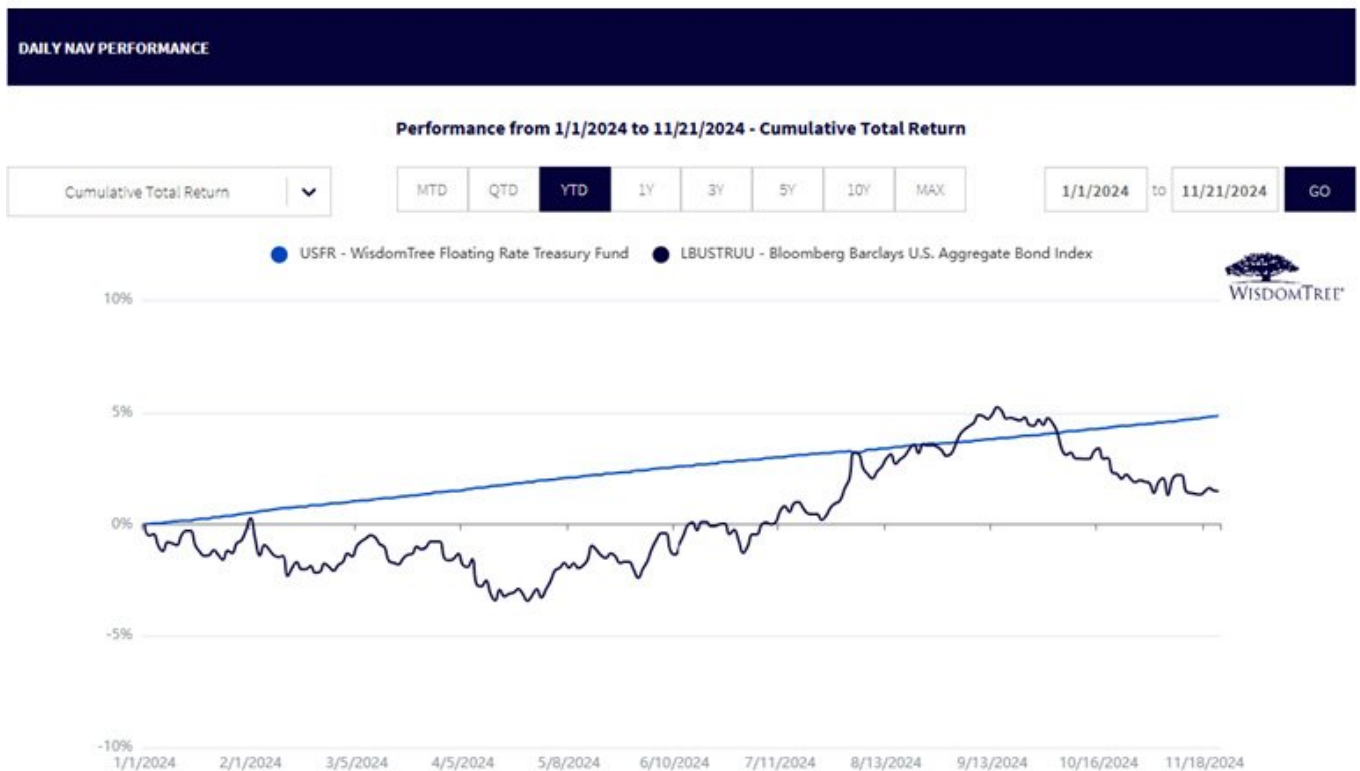
- Fed rate cut expectations have been dialed back considerably, so this yield curve advantage should remain in place for the 2025 outlook, as well
- Even if the Fed cuts rates more than currently expected, the UST 3-Month/10-Year spread would have to steepen considerably from present levels before it would return to just neutral territory

Figure 1: Treasury 3-Month/10-Year Yield Curve



Source: Bloomberg, as of 11/22/24. For definitions of terms in the chart above, please visit the [glossary](#).

Figure 2: Year-to-Date Returns for USFR vs. its Benchmark



Source: WisdomTree, as of 11/22/24. For definitions of terms in the chart above, please visit the [glossary](#). **Past performance is not indicative of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance, click [here](#).**

- Even with the Fed cutting rates, **USFR** has outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index (Agg), year-to-date
- **USFR** offers investors a solution that considerably mitigates the volatility that has been associated with the broader bond market in the post-Covid era
- A return to a normal Fed interest rate cycle positions **USFR** as a key component to managing duration risk in a bond portfolio

Conclusion

As I mentioned in the opening, interest rates have now returned to a more normal historical setting. And, even with rate cuts, investors could still be presented with what is viewed as a “higher for longer” regime compared to what many market participants had been accustomed to during the 2010–2021 period.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Securities with floating rates can be less sensitive to interest rate changes than securities with fixed interest rates, but may decline in value. Fixed income securities will normally decline in value as interest rates rise. The value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.