

Back to Basics with Tax-Aware Laddered Bond Strategies

Published November 12, 2025

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Key Takeaways

- With bond yields normalizing, investors can benefit from revisiting laddered strategies that offer disciplined exposure without the need to time interest rate changes.
- WisdomTree's active municipal laddered Funds provide tax-aware income solutions with varying credit profiles to align with investor risk and return preferences.
- For those seeking Treasury exposure, WisdomTree's suite offers diversified laddered duration tools tailored to different interest rate environments and policy outlooks.

With investors being inundated with a whole host of fixed income solutions, sometimes it makes sense to go back to basics. In this blog post, I emphasize how investors can turn to time-tested laddered bond strategies that contain a "tax awareness" feature. Specifically, I'm talking about solutions in both the municipal and U.S. Treasury (UST) markets where fixed income investors are provided with options that depend upon their interest rate outlook and income preferences.

Municipals: WisdomTree's Municipal Suite of ETFs: Municipals serve as a strong diversifier of assets, typically offer better credit quality than corporate bonds and can provide a more defensive behavior in rising rate environments, all while offering the opportunity for enhanced after-tax income.

- **WisdomTree Core Laddered Municipal Fund (WTMU):** This Fund is an active strategy designed to provide a laddered approach for exposure to investment-grade municipal bonds across the intermediate part of the municipal yield curve. It diversifies exposure across maturity rungs out to 15 years in securities that will mature or are likely to be called or tendered. As bonds begin to mature, get called or are sold off from shorter rungs, the proceeds are reinvested at the very top of the ladder in securities that are higher yielding, given the positive slope of the municipal yield curve.

U.S. Treasuries: WisdomTree's Treasury Suite of ETFs: This suite offers investors the ability to utilize three interest rate/duration options that focus exclusively on investing in the UST market.

- **WisdomTree Floating Rate Treasury Fund (USFR):** The interest rate for a Treasury floating rate note (FRN) floats, or gets reset, with the highest accepted discount rate at the weekly 13-week t-bill auction, plus a spread. Investors who are interested in taking advantage of the highly liquid UST market while also receiving income, but without the volatility, should consider Treasury FRNs.

Conclusion

The current and prospective interest rate setting is one where bond yields have returned to a more normal level. As a result, investors now have the ability to focus on diversification and income needs in their overall portfolios by going back to basics with laddered, tax-aware strategies.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

WTMU/WTMY: Municipal securities carry various risks, including credit, interest rate, prepayment and valuation risks. Issuers may face financial difficulties that impact their ability to meet payment obligations. The value of these securities can fluctuate due to changes in revenue sources, local economic and political conditions and industry-specific downturns (e.g., education, health care, transportation, utilities). Additionally, tax-exempt income from municipal securities could become taxable due to regulatory changes or issuer noncompliance, potentially reducing their value. 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. While the Fund attempts to limit credit and counterparty exposure, 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.

USFR: 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.

USSH/USIN: U.S. Treasury obligations may provide relatively lower returns than those of other securities. Changes to the financial condition or credit rating of the U.S. government may cause the value to decline. Fixed income securities are subject to interest rate, credit, inflation and reinvestment risks. Generally, as interest rates rise, the value of fixed income securities falls.