

Extending Duration Has Been a Fleeting Strategy

Published March 6, 2025

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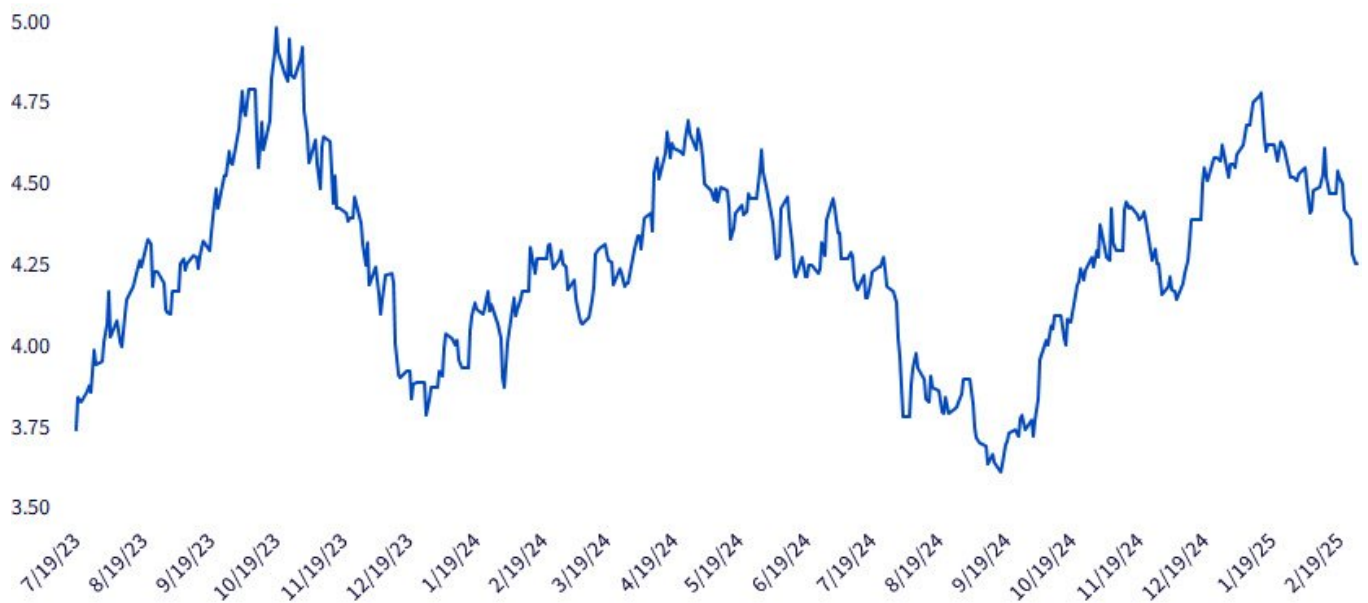
Key Takeaways

- Bond market volatility has persisted, with the U.S. Treasury 10-Year yield swinging between 3.6% and 5% over the past year and a half, making duration-extension strategies highly uncertain.
- Treasury floating rate notes (FRNs), represented by the [WisdomTree Floating Rate Treasury Fund \(USFR\)](#), have outperformed intermediate- to longer-duration bonds during this period.
- Uncertainty, moderate economic growth and “bumpy” inflation are keeping rate-cut expectations in check, and investors may benefit from Treasury FRNs to capture income potential while mitigating volatility and interest rate risk.

Well, here we are again. While investors deal with various aspects of uncertainty, there has been one certainty that continues to come through in the bond market: volatility. Over the last few years, investors have been presented with the age-old fixed income question on many occasions: should I extend duration? In this blog post, I wanted to not only answer that question but also highlight how that strategy has fared and how bond investors can approach their portfolios with a more potentially advantageous solution.

Let's take a look at the aforementioned volatility, using the benchmark U.S. Treasury 10-Year yield as our guide:

Figure 1: U.S. Treasury 10-Year Yield



Source: Bloomberg, as of 2/28/25.

- Over the last 18 months or so, the UST 10-Year has reached as high as 5% and fallen to as low as roughly 3.60%.
- During this time frame, swings of 50 to 100 basis points (bps) in a matter of months have become almost commonplace.
- This latest bout of heightened volatility has been on full display since the Fed implemented its first rate cut in mid-September 2024, when the UST 10-Year yield surged almost 120 bps before recently cutting that increase in half.

And now examine how extending duration fared during the period under review:

- UST floating rate notes (FRN), represented by the [WisdomTree Floating Rate Treasury Fund \(USFR\)](#), has seen performance experience a rather steady, ascending trajectory during this bout of heightened bond market volatility.
- UST intermediate to longer-dated duration has borne the brunt of heightened bond market volatility, underperforming UST FRNs in a visible fashion.
- The longer duration play still remains in negative territory even with the most recent rally in the UST 10-Year yield.

Conclusion

In our opinion—geopolitical considerations aside—without signs of labor market cooling and outright economic weakness, it is difficult to envision a continuation of the recent rally in the UST market, specifically in the intermediate to longer-dated portion of the yield curve. In addition, ongoing volatility will more than likely remain a hallmark of bond market activity for the foreseeable future. Against this backdrop, investors

should consider Treasury FRNs as a potential solution to take advantage of income potential in a flat, or renewed inverted, yield curve environment, without the volatility. The WisdomTree Floating Rate Treasury Fund provides investors a means of investing in this sought-after space.

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