

Giving Credit Where It's Due

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Although most Treasury yields have moved visibly higher thus far in 2021, the absolute level of rates remains historically low. That quandary still leaves investors searching for yield.

Typically, fixed income investors turn to the U.S. credit markets in such a scenario, with investment-grade (IG) and high-yield (HY) corporate bonds filling the need. However, the successful monetary policy approach of the Federal Reserve (Fed) in response to last March's sell-off has brought corporate spread levels back to pre-pandemic readings, leaving many investors still searching for income opportunities.

There is another outlet investors could consider on this front: emerging markets corporate debt. Often, when discussing emerging markets debt, the conversation turns to questions surrounding local currency, or non-U.S. dollar (USD) based fixed income investments. The [WisdomTree Emerging Markets Corporate Bond Fund \(EMCB\)](#) offers investors an actively managed strategy that invests in globally operating companies that are headquartered in emerging markets and issue debt in USD. Thus, investors are offered a different vehicle for income without the currency risk.

Another interesting attribute of EMCB is its credit quality make-up. This approach is a blend of both investment-grade and high-yield, but the weightings are tilted more toward IG than HY, with a roughly 60/40 split.

Let's see how EMCB stacks up with U.S. IG and HY in terms of yield and duration:

- EMCB: average yield to maturity 3.92%; duration 4.77 years
- Bloomberg Barclays U.S. Aggregate Corporate Index: yield to worst 2.20%; duration 8.57 years
- Bloomberg Barclays U.S. Corporate High Yield Index: yield to worst 3.99%; duration 3.77 years¹

To recap, EMCB offers considerably more yield (+172 basis points) than U.S. IG, but with far less duration (-3.8 years), while for U.S. HY, the yields are very similar with only one year more in duration. And remember, with respect to the HY comparison, EMCB has a credit profile that tilts toward investment grade. In other words, it could be argued that an investor is offered a comparable yield, but with a better credit composition.

Conclusion

When searching for yield, especially within the context of the present fixed income landscape, we continue to emphasize the importance of following a prudent approach. With absolute yields and spread readings at their current levels, there's no doubt investors are faced with a challenging income setting. However,

we feel EMCB provides investors with a reasonable risk-based strategy to complement a broader fixed income portfolio.

¹Sources: WisdomTree and Bloomberg, as of 4/8/21

Important Risks Related to this Article

For standardized performance and the SEC-30 Day Yield of the Funds in the chart, please click [here](#).

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