

Income With Low Volatility Utilizing U.S. Treasuries

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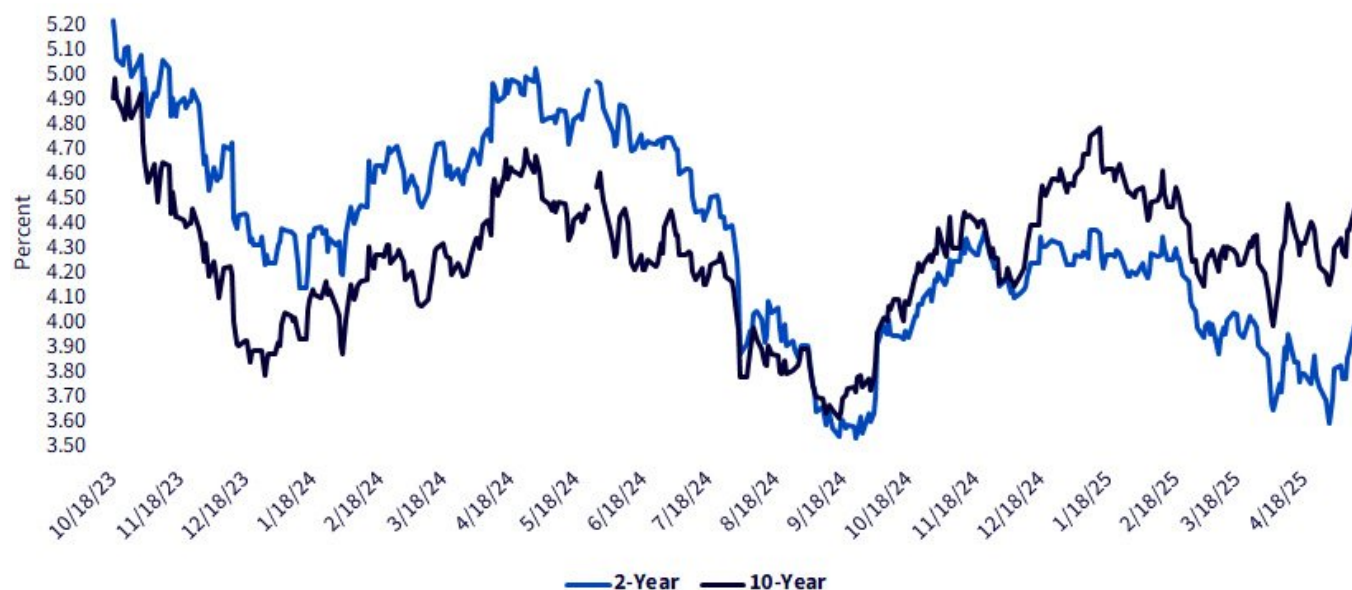
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Key Takeaways

- Treasury floating rate notes (FRNs) have provided a rare pocket of stability in 2025's volatile rate environment, offering ultra-short duration exposure without the sawtooth yield swings seen across the fixed coupon curve.
- While credit-oriented ultra-short strategies like JPST and JAAA may offer higher yields, their performance suffered during recent risk-off episodes, highlighting the hidden risks of credit exposure even in short-duration vehicles.

Our overarching theme for U.S. fixed income has been, and will continue to be, based on the premise that interest rates will stay at more historically "normal" levels, but that, within this backdrop, investors will face heightened volatility. Without a doubt, looking at the U.S. Treasury (UST) market's behavior through the first four months of the year, this landscape has been underscored. As a result, fixed income investors will need to make some potentially challenging investment decisions, where at first glance, a solution may seem like a suitable one, but when uncertainty enters the mix, an unexpected result could occur.

Figure 1: U.S. Treasury Yields



Source: Bloomberg, as of 5/7/23.

Let's first take a look at some of that volatility I just mentioned. Since reaching their near-term peak readings around mid-October 2023, Treasury fixed coupon yields have experienced a roller-coaster ride, to say the least. In addition, even within these broader ups and downs, yield levels have shown visible sawtooth patterns as well.

It is also important to note that no sector of the Treasury fixed coupon curve was spared. As the graph illustrates, both shorter- and longer-dated maturities experienced the same results. As you can see, this short- and long-run volatility has continued right up until this writing here in 2025.

The only sector of Treasuries that has not been subject to this volatility is floating rate notes (FRNs). UST FRNs are reset with the weekly 3-month t-bill auction, plus a spread, and as a result, are anchored by the Fed Funds Rate and not impacted by speculative trading activity. Thus, tariff uncertainty and recession and/or inflation fears are not part of the daily trading mechanism that the fixed coupon maturities are confronted with.

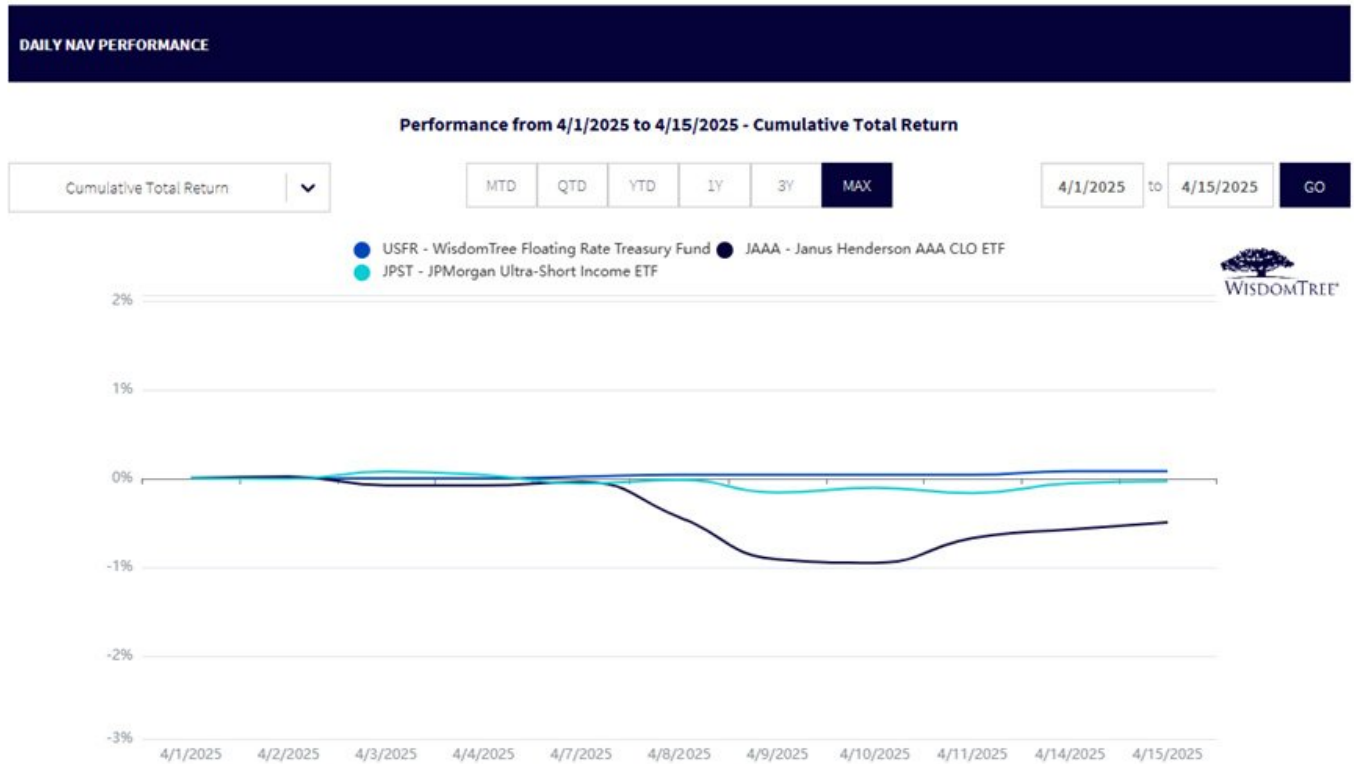
The Credit Factor

Oftentimes, when bond investors are looking to use ultra-short duration as a hedge against volatility, they consider using structures that, unlike UST FRNs, are not 100% Treasuries, but rather are concentrated with either corporate credit or collateralized loan obligations (CLOs). Interestingly, these types of vehicles entail both a rate and credit component as a result.

While ultra-short credit and/or CLO instruments can offer somewhat higher yields than Treasury FRNs, there is a reason: potential credit risk. Relatively recently, markets have witnessed a period where the credit component can overtake the duration aspect of a fund, specifically during a risk-off episode. Obviously, I'm referring to the post-Liberation Day sell-off where two of the largest and most well-known funds in

the ultra-short credit and CLOs bucket, JPMorgan Ultra-Short Income ETF (JPST) and Janus Henderson AAA CLO ETF (JAAA), experienced negative returns, but the [WisdomTree Floating Rate Treasury Fund \(USFR\)](#) did not.

Figure 2: Performance



Source: Bloomberg, as of 5/12/23. **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 performances, click the relevant ticker: [USFR](#), [JAAA](#), [JPST](#).**

Conclusion

While this period of negative activity may have been somewhat short-lived, investors who put their funds in the ultra-short duration bucket are not expecting to see potential statement risk. Treasury FRNs are direct obligations of the U.S. government and do not carry that type of credit risk. [USFR](#) is a means to invest in the ultra-short duration bucket with exposures only to Treasury FRNs.

Figure 3: Additional Information

| Fundamentals | WisdomTree Floating Rate Treasury Fund (USFR) | Janus Henderson AAA CLO ETF (JAAA) | JPMorgan Ultra-Short Income ETF (JPST) |
|-------------------------|---|--|---|
| Inception Date | 2/4/14 | 10/16/20 | 5/17/17 |
| Objective | WisdomTree Floating Rate Treasury Fund seeks to track the price and yield performance, before fees and expenses, of the Bloomberg U.S. Treasury Floating Rate Bond Index. | An ETF investing in high-quality CLOs, which seeks to deliver investors risk-managed access to an asset class that may provide consistent risk-adjusted returns and low correlation to traditional fixed income asset classes while exhibiting low volatility with low downgrade risk. | Leveraging the conservative philosophy of J.P. Morgan Global Liquidity, JPMorgan Ultra-Short Income ETF aims to deliver current income while managing risk. |
| Expense Ratio | 0.15% | 0.20% | 0.18% |
| Index | Bloomberg U.S. Treasury Floating Rate Bond Index | J.P. Morgan CLO AAA Index | Actively Managed |
| Assets under Management | \$18.91 billion | \$20.88 billion | \$30.82 billion |

Sources: WisdomTree, Janus Henderson, J.P. Morgan, as of 5/14/25.

Important Risks Related to this Article

USFR: 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.

JAAA: The biggest risk is that the Fund's returns and yields will vary, and you could lose money.

JPST: Investments in asset-backed, mortgage-related and mortgage-backed securities are subject to certain risks including prepayment and call risks, resulting in an unexpected capital loss and/or a decrease in the amount of dividends and yield. During periods of difficult credit markets, significant changes in interest rates or deteriorating economic conditions, such securities may decline in value, face valuation difficulties, become more volatile and/or become illiquid.