

Re-Positioning in an Active Core Strategy

Published November 20, 2024

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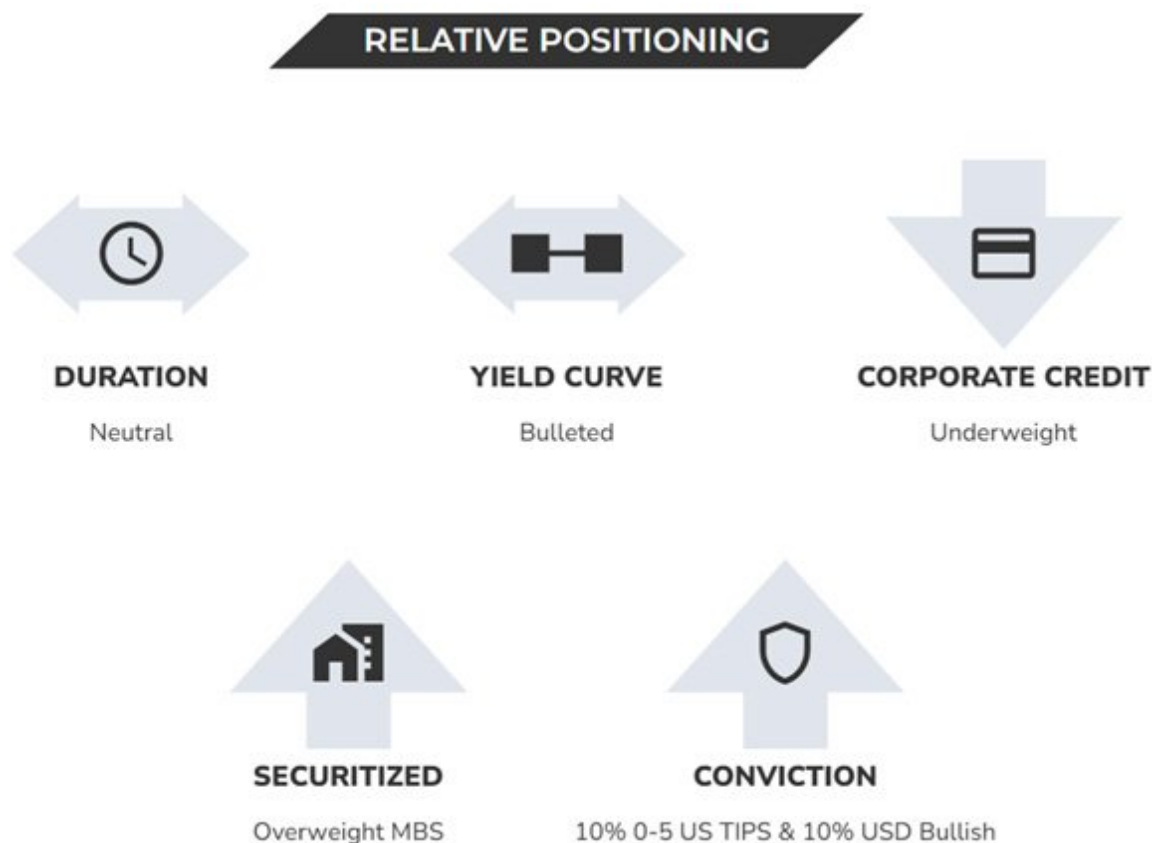
Key Takeaways

- Mid-November repositioning in the Bianco Research Fixed Income Total Return Index (BTRINDEX) included a shift to a neutral duration, reflecting a response to higher Treasury yields and persistent economic strength.
- Due to tight credit spreads and relative value opportunities, BTRINDEX has maintained an under-weight allocation to corporate credit while increasing its allocation to securitized assets such as MBS.
- [WisdomTree Bianco Total Return Fund \(WTBN\)](#) provides investors an adaptable core fixed income strategy to navigate heightened market volatility and evolving economic conditions heading into 2025.

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The first full week of November brought with it headline events (the elections and the Fed meeting) that gave for our industry the opportunity to revisit outlooks and reposition for fixed income heading into year-end, and as we prepare for 2025. This type of landscape is ideal for active core strategies so investors can have solutions that are both flexible and responsive to changing investment conditions. The Bianco Research Fixed Income Total Return Index (BTRINDEX) is an active core strategy that underscores the importance of this approach to fixed income investing, where an intra-month repositioning was recently implemented.

BTRINDEX is based on qualitative and quantitative inputs including economic data and interpretations of government policy, and just implemented a repositioning in the various key inputs that help make up its active core strategy. The characteristics below reflect how BTRINDEX would presently position a portfolio of fixed income ETFs seeking to achieve maximum total return over a comparable baseline, or benchmark neutral portfolio of fixed income securities.



Rationale

Let's look at the rationale behind this repositioning using the five key areas involved.

Duration

Prior to this most recent adjustment, BTRINDX had a 90% under-weight compared to the benchmark's duration, but has now moved to a neutral duration in mid-November. While the outlook sees the economy and inflation remaining stronger than expected, the surge in Treasury yields since September warrants a more neutral stance.

Yield Curve Position

Given the Fed's projected cutting path, it is anticipated that yield curve steepening will accelerate and benefit a bulleted structure, a bond strategy that focuses on maturities that are concentrated around a similar maturity on the yield curve.

Corporate Credit

Given record corporate bond issuance, tight credit spreads and concerns for an overbought equity market, BTRINDX remains 70% under-weight in credit in November.

Securitized

Due to relative value considerations, BTRINDEX increased its over-weight exposure to MBS relative to the benchmark in November. In addition, the index's securitized sector holds a 25% position in current coupon-to-be-announced MBS issues, down from 50% at the start of November.

Conviction

At the start of November, BTRINDEX held a 10% allocation to 0-5 U.S. TIPS and 10% in [WisdomTree's U.S. Dollar Bullish Fund \(USDU\)](#). Both positions remain unchanged.

The bullish USD bet would benefit if the U.S. economy outperforms the rest of the world, leading to higher yields and a strong dollar. The TIPS position would benefit from higher-than-expected inflation readings.

Conclusion

The potentially changing bond investment landscape and heightened volatility compared to years past can present a challenging backdrop for fixed income investors. The [WisdomTree Bianco Total Return Fund \(WTBN\)](#), which seeks to track the price and yield performance before fees and expenses of BTRINDEX, offers investors an active core strategy to help navigate their bond portfolio for what may lie ahead.

Important Risks Related to this Article

This blog post was partially written by [Jim Bianco on his website](#).

For definitions of terms/indexes mentioned in this blog post, please visit the [glossary](#).

Unless otherwise stated, all charts in this blog post are sourced from Bianco Research as of 11/12/24.

There are risks associated with investing, including the possible loss of principal. 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. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.