

Smarter Signals, Stronger Results: Inside QHY's Recent Rebalance

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Key Takeaways

- Since its November 2024 rebalance, the [WisdomTree U.S. High Yield Corporate Bond Fund \(QHY\)](#) has outperformed its prior version by 37 basis points, driven by a strategic blend of equity momentum and free cash flow insights.
- By cutting exposure to weak-momentum names like Kohl's and retaining high-momentum issuers with negative cash flow such as Carnival and Delta, the strategy sidestepped downside while capturing upside recovery signals.
- The updated strategy has outpaced the Bloomberg U.S. Corporate High Yield Index by 63 basis points year-to-date, highlighting the value of a disciplined, quality-first approach in volatile markets.

When markets feel shaky, investors naturally look for strategies built on stability and quality. Building on our last post, "[Built for the Tough Times: QHY's Edge in Today's High-Yield Market](#)," we're excited to share an update on the [WisdomTree U.S. High Yield Corporate Bond Fund \(QHY\)](#). In the sections that follow, we'll remind the readers of the enhancements we've made, explain why they matter and show how they've helped us deliver stronger results.

Strategic Enhancements for a Resilient Approach

In the wake of COVID-19, many weaker companies stayed afloat thanks to support from the Federal Reserve and other central banks. To keep pace with changing market dynamics and fine-tune our risk/return profile, we added equity return momentum to our tool kit alongside our long-term free cash flow signals. Rolled out in our November 2024 rebalance, this new layer gives us a more timely read on an issuer's financial health—helping us spot and sideline potential troublemakers before their fundamental weaknesses even register.

Momentum has long been a go-to tool in equity markets for spotting turning points and riding out volatility. We zeroed in on equity momentum, rather than debt momentum, because it cuts through the noise and gives us a clearer read on how the market feels about a company. In our backtests from 2016 through mid-2024, the issuers in the top momentum quintile (and especially those in the top 10%) consistently exhibited strong risk-adjusted results, proving that momentum can be a powerful complement to our fundamentals.

We balance momentum's benefits against turnover by zeroing in on the most extreme signals—only issuers in the top or bottom 10% of equity momentum ratings make the cut. That way, momentum serves as a powerful reality check on our fundamentals:

- **Strong momentum, weak cash flow:** If a company is burning cash but its stock shows real momentum, the market may be pricing in a turnaround, and that's a green light to stay invested.
- **Strong cash flow, weak momentum:** On the flip side, a company with healthy cash generation but cratering equity momentum can be a warning sign. In those cases, we'll step aside before sentiment turns into fundamental pain.

One of the most important tweaks we made was knowing when to dial back the momentum signal. By tracking 12-month momentum, we stay grounded in longer-term trends and avoid overreacting to every short-lived swing.

Outperformance in Action: New Strategy vs. Old

Our blend of deep fundamental research and well-timed momentum signals is proving its worth. Since our November 2024 rebalance, the enhanced high-yield strategy, the "Current Strategy," has outperformed the previous version by 37 basis points.

Growth of \$100



Source: WisdomTree, as of 05/30/25. **The performance data quoted represents past performance. 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 [here](#).**

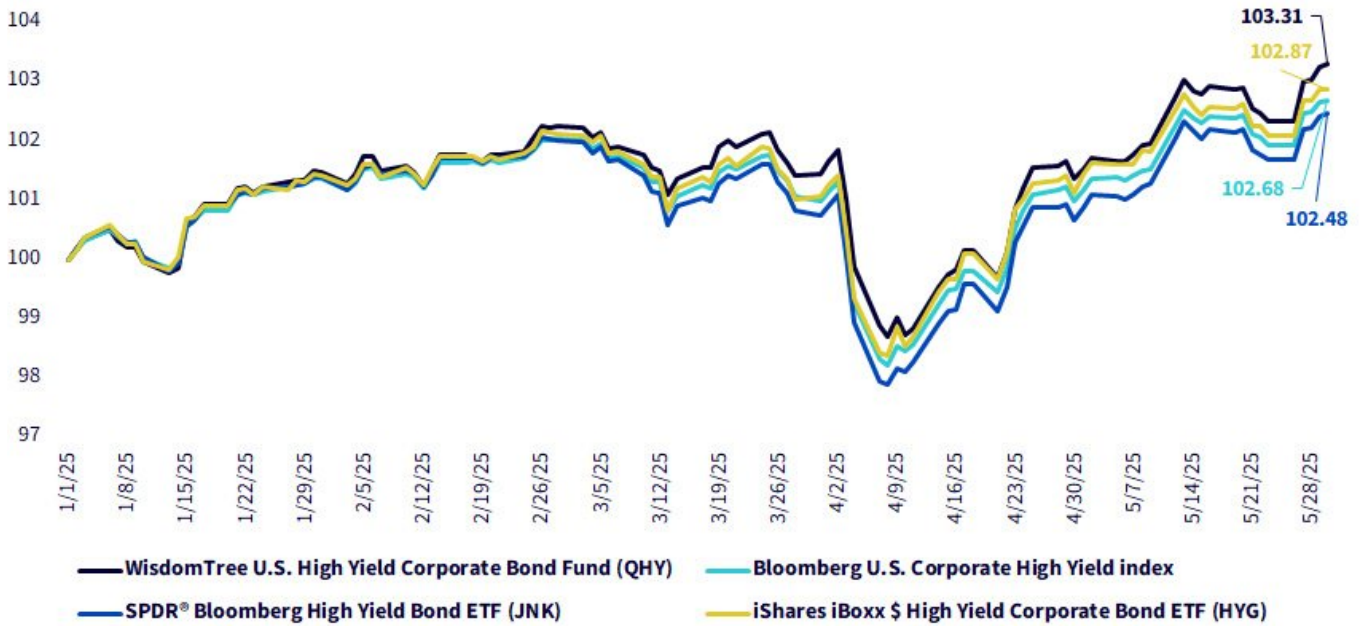
A couple of factors have underpinned the strategy's improved results:

- **Timely removal of low-momentum issuers:** Exposure to companies such as Kohl's, Cleveland-Cliffs, B&G Foods and Organon & Co. was eliminated as soon as their equity momentum deteriorated, effectively mitigating potential downside.
- **Selective retention of high-momentum, negative-cash-flow issuers:** Positions in issuers like Carnival, Royal Caribbean, Fortress Transportation, United Airlines and Delta Air Lines were maintained despite negative free cash flow, since their strong equity momentum signaled anticipated market recoveries.

Benchmarking Success: Outperforming Peers in a Time of Distress

Our improved strategy hasn't just outpaced the previous approach; it's also held its own against peers and the broader market. Year-to-date, the Fund has beaten the Bloomberg U.S. Corporate High Yield Index by 63 basis points. We believe our emphasis on higher-quality bonds as well as more timely signals, both versus peers and the broader index, have been a major driver of the outperformance.

Growth of \$100



Source: Bloomberg, WisdomTree, as of 05/30/25. The funds were chosen for comparison due to their similar investment objectives. **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 performance, click the respective ticker: [QHY](#), [JNK](#), [HYG](#).**

Conclusion: Quality and Resilience in Volatile Markets

When markets become stressful, it's the weaker issuers that usually suffer the most. By keeping quality at the forefront, and layering in timely equity momentum signals, we've been able to steer through recent ups and downs with greater confidence. Shifting toward higher-quality issuers and using momentum as an early warning system has helped [QHY](#) deliver stronger risk-adjusted returns.

For investors who want exposure to high yield without reaching for riskier credits, a disciplined, quality-first approach like [QHY](#) can offer a steadier path. We believe the recent changes to the strategy will leave us better positioned for whatever lies ahead. And ready to pursue strong, risk-adjusted performance in any market environment.

Additional Information

Fundamentals	QHY	JNK	HYG
Inception Date	4/27/16	12/4/07	4/11/07
Objective	<p>The WisdomTree US High Yield Corporate Bond Fund is an exchange traded fund incorporated in the USA. The Fund seeks to track the performance and characteristics of the WisdomTree U.S. High Yield Corporate Bond Index. The ETF invests in US High Yield Corporate Bonds that have attractive fundamental and income characteristics.</p>	<p>SPDR Bloomberg High Yield Bond ETF is an exchange-traded fund incorporated in the USA. The Fund seeks investment results that correspond to the price and yield of the Bloomberg High Yield Very Liquid Bond Index.</p>	<p>iShares iBoxx \$ High Yield Corporate Bond ETF is an exchange-traded fund incorporated in the USA. The ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds.</p>
Expense Ratio	38bps	40bps	49bps
Index	WisdomTree U.S. High Yield Corporate Bond Index	Bloomberg High Yield Very Liquid Index	iBoxx USD Liquid High Yield Index
Assets Under Management	\$197.16 M	\$7,706.28 M	\$ 16,584.39 M

Sources: WisdomTree, State Street, iShares, as of 6/20/25.

Important Risks Related to this Article

For current holdings, click the respective ticker: **QHY**, **JNK**, **HYG**. Holdings are subject to risk and change.

QHY: 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. High-yield or “junk” bonds have lower credit ratings and involve a greater risk to principal. 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. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.

JNK: The Fund is classified as “diversified” under the Investment Company Act of 1940, as amended (the “1940 Act”); however, the Fund may become “non-diversified,” as defined under the 1940 Act, solely as a result of tracking the Index (e.g., changes in weightings of one or more component securities). When the Fund is non-diversified, it may invest a relatively high percentage of its assets in a limited number of issuers.

Passively managed funds invest by sampling the index, holding a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index. While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

HYG: Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Diversification may not protect against market risk or loss of principal. Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the fund. Any applicable brokerage commissions will reduce returns