

Western Asset's Outlook for Unconstrained Bond Investing

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Bradley Krom

U.S. Head of Research

The [WisdomTree Western Asset Unconstrained Bond Fund \(UBND\)](#), the first unconstrained bond exchange-traded fund (ETF), was launched on June 11, 2015. Recently, we thought it might be instructive to publish a discussion we had with the Fund's portfolio manager, Mark Lindbloom, from Western Asset Management Company (Western Asset). Below, we summarize Western Asset's outlook for global markets for the coming months and ultimately how these views impact the positioning of UBND. At present, the portfolio is over-weight credit risk, under-weight interest rate risk, with select exposures to emerging markets.

Global Macro U.S. economic data, while somewhat stagnant in recent months, continues to support Western Asset's view of modest growth over the next year (2.0% to 2.5%). As a result of recent data, including an extremely strong payroll number on November 6, Mark believes the process of interest rate normalization is likely to begin in December. However, inflation remains low, implying a very gradual pace of tightening. For this reason, he views the prospect of a sustained rise in long-maturity U.S. bond yields as less likely. Looking forward to 2016, Western Asset [estimates three to four rate hikes](#), depending on the strength of underlying economic data. Globally, the outlook remains uncertain in light of recent developments, particularly in China. As a result of a decline in global commodity prices, select emerging market (EM) countries are experiencing stress. However, Western Asset still believes EM represents value in the medium to long term. Importantly, the European Central Bank (ECB) and Bank of Japan (BOJ) are poised to increase their level of accommodation in the coming months, in Western Asset's view. As a result, it believes that the global outlook for growth may be poised to improve heading into 2016.

Global Credit Conditions Corporate balance sheets generally remain in good shape, but the strong U.S. dollar is negatively affecting corporate earnings of some large U.S. multinationals. In Europe, Western Asset anticipates that the economy will continue to avoid recession largely due to aggressive action from the ECB. It continues to keep a close eye on geopolitical tensions in various hotspots, such as Ukraine and the Middle East. Looking ahead, Western Asset will continue to determine whether to adjust risk positions by weighing the much-improved valuations, which in certain cases may now be fair, against a still-favorable backdrop of mild economic expansion and accommodative policy.

Portfolio Impact UBND's portfolio management team expects to remain over-weight to certain spread sectors that have demonstrated strong fundamentals. It is maintaining a significant allocation to investment-grade financials, which currently offer attractive yields while appearing more utility-like in the face of increased regulation. The team also has allocations to the high-yield and bank loan sectors, as it believes

these sectors should benefit from the continued economic recovery. On a fundamental value basis, very high implied default rates, which are much higher than realized rates, signal attractive valuations. The spread between EM and developed market yields remains wide, and, in our opinion, presents an opportunity to add value in select countries. View current UBND exposures, [here](#). Also, the portfolio will maintain a tactical duration strategy and will continue to favor a curve-flattened position. Western Asset believes a short position in the intermediate portion of the U.S. yield curve is warranted, as intermediate rates will likely rise the most in response to the normalization of U.S. monetary policy. At the longer end, it is possible that rates could rise by 50-75 basis points (bps) by the end of 2016. Additionally, market volatility has risen sharply, and the risks to a fragile global recovery are not insignificant. Western Asset's focus remains on longer-term fundamentals with diversified strategies to mitigate risk. Ultimately, it sees greater value in nongovernment sectors while maintaining a meaningful position in long-dated Treasuries as an offset against deflation or slower growth. While UBND has only been on the market a few months, our discussions with financial advisors have generally been positive. For many asset allocators, the fact that they know every day exactly what they hold has been a strong differentiator, particularly in light of the volatility that has occurred over this time. While performance will ultimately be driven by Western Asset's views on the markets, we believe an unconstrained approach to investing focused on prudent risk management has the potential to add value as interest rates in the U.S. ultimately rise.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Unlike typical exchange-traded funds, there is no index that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition when interest rates fall income may decline. 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. High-yield, or "junk," bonds have lower credit ratings and involve a greater risk to principal.

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. The Fund may engage in "short sale" transactions where losses may be exaggerated, potentially losing more money than the actual cost of the investment, and the third party to the short sale may fail to honor its contract terms, causing a loss to the Fund. 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.