

What's the Fastest-Growing ETF So Far in 2018? USFR

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According to a May 2, 2018, article from ETF.com,¹ there have been more than 100 exchange-traded funds (ETFs) that have more than doubled their asset totals since the beginning of 2018. However, the fastest-growing one, on a percentage basis, comes from the fixed income universe: the [WisdomTree Bloomberg Floating Rate Treasury Fund \(USFR\)](#).

The fastest-growing ETF year-to-date coming from the fixed income space may catch some observers a bit off-guard, especially considering the fact the Federal Reserve (Fed) is tightening monetary policy and the U.S. Treasury (UST) 10-Year yield has risen by, at one point this year, almost 100 basis points. The former observation is the key factor behind this asset explosion of 5,000% through the first four months of 2018. It seems to be no coincidence that this surge has occurred against the backdrop of the Fed picking up its pace of rate hikes and providing forward guidance that additional moves are anticipated for both 2019 and 2020, according to the Fed's projections. In other words, investors have been searching for solutions to help mitigate interest rate risk in their bond portfolios, and USFR recently has been discovered as an ideal strategy to achieve such a goal, no doubt resulting in this eye-opening pace of growth.

What Is a Treasury Floating Rate Note (FRN)?

In January 2014, the UST 2-Year FRN became the latest issue in the Treasury's supply arsenal. These securities are auctioned on a monthly basis, and in a relatively short period of time they have grown to a total of \$334 billion, as of this writing. In fact, as a result of the Treasury's supply needs, the auction size of the FRN has now been increased twice so far in 2018. The interest rate of an FRN changes, or "floats," over the life of the FRN, and is reset weekly based on a reference rate that is determined at the weekly 3-Month Treasury Bill auction.

Why Should Investors Consider USFR?

While we could all debate where we think the 10-Year yield is headed from here, there appears to be one crucial point not really up for such conjecture: the Fed is expected to continue raising rates. Given the Fed's guidance and market outlook for additional increases in the Federal Funds Rate in 2018, if not beyond, some "Fed protection" seems warranted. As the Fed raises rates, the rate hike is reflected in the weekly 3-Month t-bill auction, not only offering investors a rate hedge for their portfolios but also providing the opportunity for higher-yield enhancement as a result of the Fed's tightening moves, with essentially no duration risk. We believe USFR is a potential solution that seeks to track UST FRNs.

1Sumit Roy, "Fastest Growing ETFs of the Year," ETF.com, 5/2/18.

Important Risks Related to this Article

There are risks associated with investing, including 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. The issuance of floating rate notes by the U.S. Treasury is new and the amount of supply will be limited. 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.