GLOBAL X INSIGHTS

Introducing the Global X Treasury Ladder ETFs (SLDR, MLDR, and LLDR)

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Date: September 10, 2024
Topic: Income

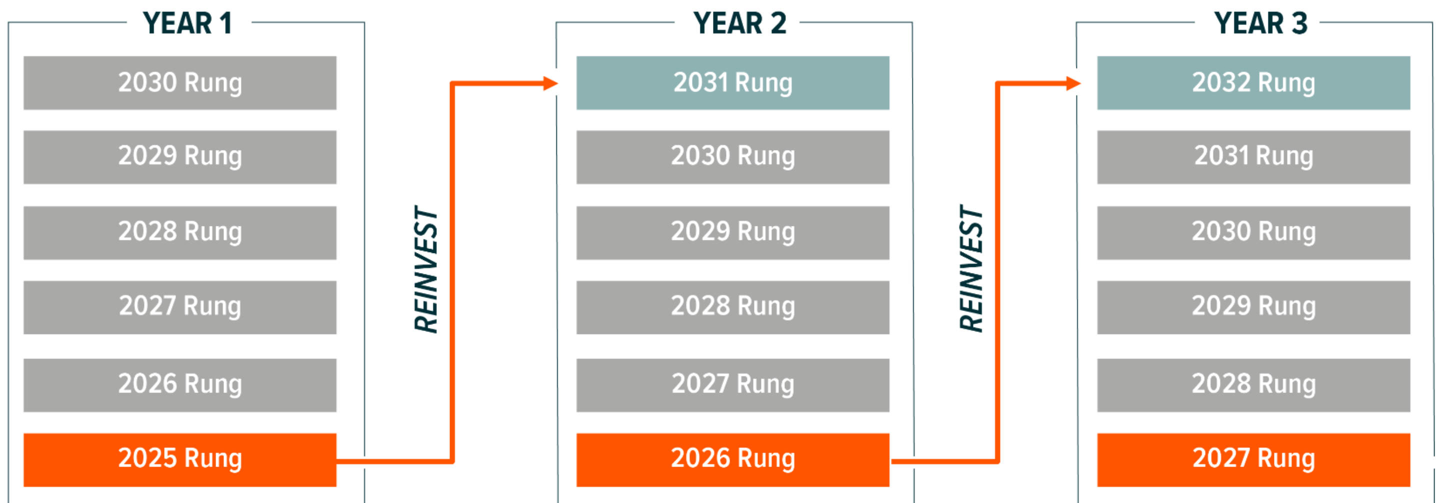
On September 10, 2024, we listed the Global X Short-Term Treasury Ladder ETF (SLDR), the Global X Intermediate-Term Treasury Ladder ETF (MLDR), and the Global X Long-Term Treasury Ladder ETF (LLDR) on the New York Stock Exchange. Our Treasury Ladder ETFs offer investors targeted exposure to specific segments of the Treasury yield curve, providing a convenient and potentially cost-effective way to manage duration and reinvestment risk.

Key Takeaways

- Treasury Ladders are equally weighted portfolios of U.S. government bonds that provide exposure across a range of maturities. Global X's Treasury Ladder ETFs seek to allow investors to diversify their Treasury holdings while targeting specific maturity ranges.
- Employing a Treasury Ladder strategy across various maturity ranges may help reduce the impact of interest rate volatility and mitigate reinvestment risk.
- Treasury yields have climbed near their highest levels in decades. A core position in a laddered portfolio of high-quality US Treasury Bonds may allow investors to capitalize on this opportunity while managing for credit risk.

What Are Treasury Ladders?

A Treasury ladder is a bond investment strategy which seeks to provide diversification and income using a portfolio of U.S. Treasury securities. Depending on the targeted maturity range, these strategies can consist of Treasury Bonds ("T-Bonds"), notes ("T-Notes") or bills ("T-Bills"). Treasury ladder portfolios span across a range of different maturities. Each maturity is considered a "rung" on the ladder, and usually each rung is equally weighted in proportion to one another. Combined, the equally weighted collection of bond rungs forms the bond ladder. Over time, as bonds mature or approach maturity, the assets are reinvested, or "rolled", to the next rung.



Global X's Treasury Ladder ETFs operate across various portions of the Treasury yield curve, which may help hedge against interest rate volatility through a portfolio of high-quality government securities. The Short-Term Treasury Ladder ETF (SLDR) seeks to provide exposure to a staggered portfolio of Treasury holdings which range from 1-3 years in maturity. These holdings are held across two equally weighted rungs, with the first holding maturities ranging from 1-2 years and the second holding maturities ranging from 2-3 years.

The Intermediate-Term Treasury Ladder ETF (MDLR) targets holdings that range in maturity from 3-10 years across seven rungs. Finally, the Long-Term Treasury Ladder ETF (LLDR) targets exposure across the 10-30 year maturity range, and encompasses twenty eligible rungs. These funds are rebalanced once a year and reconstituted monthly, with the weights of any empty rungs being evenly redistributed across the remaining rungs of its ladder.

HOW THE GLOBAL X TREASURY LADDER ETFS ARE STRUCTURED

Sources: Global X ETFs. For illustrative purposes only.

	Global X Long-Term Treasury Ladder ETF	Global X Intermediate-Term Treasury Ladder ETF	Global X Short-Term Treasury Ladder ETF
Sample Rung Weights	5.0% 10-11 Year 5.0% 11-12 Year ↕ 5.0% 28-29 Year 5.0% 29-30 Year	14.3% 3-4 Year 14.3% 4-5 Year 14.3% 5-6 Year 14.3% 6-7 Year 14.3% 7-8 Year 14.3% 8-9 Year 14.3% 9-10 Year	50% 0-1 Year 50% 1-2 Year
Maturity Range	10-30 Year	3-10 Year	1-3 Year
Number of Eligible Rungs	20	7	2
Treatment of Empty Rungs	Weight(s) of empty rung(s) are distributed to all eligible rungs equally		
Rebalance	**Annually (Last Business Day of February):** Date window reset. Bonds rolled out to the next lower bucket.		
Reconstitution	**Monthly (End of Month):** New issuance added, outstanding par amounts readjusted to market cap weighting		

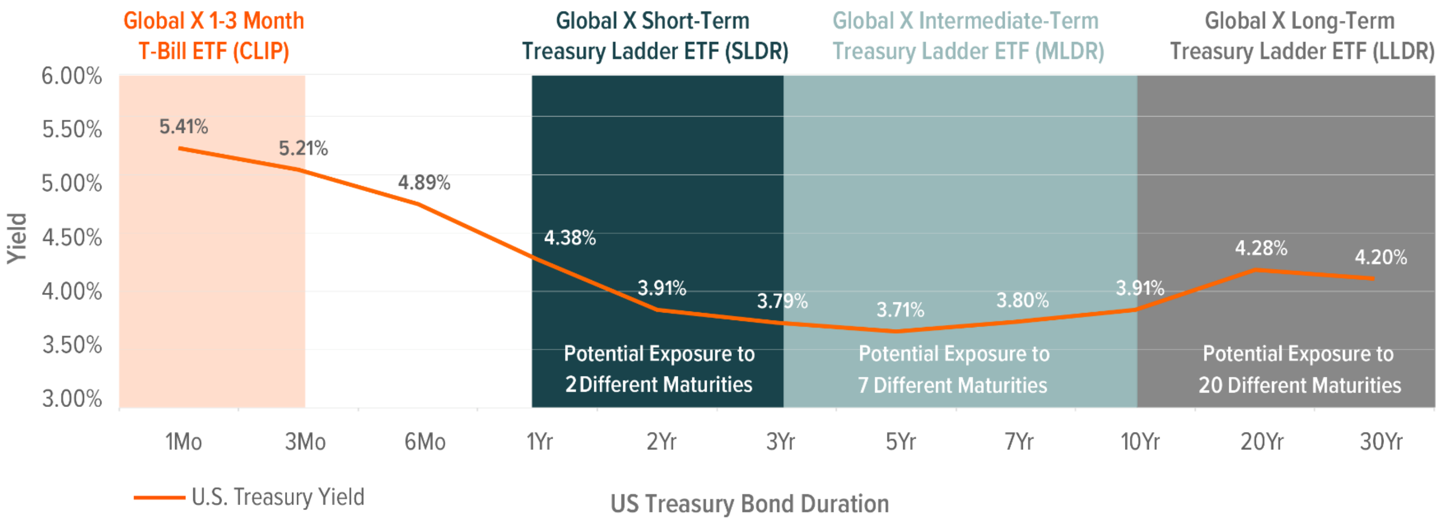
Laddering Treasury Exposures Can Help Mitigate Interest Rate and Reinvestment Risk

Treasuries and other fixed-income instruments face varying levels of interest-rate risk, depending on their maturity. Interest rate risk refers to the risk that changes in interest rates may impact the value of a security. Long-term bonds generally carry higher interest rate risk, as their longer time to maturity makes them more sensitive to changes in rates. By contrast, short-term bonds are less sensitive to shifts in interest rates due to the shorter-time frame in which their principal is returned.

Historically, the longer end of the yield curve has generally offered greater income potential in upward sloping yield curve environments but carry higher interest rate sensitivity. We believe some of the interest rate risk can be mitigated by laddering exposure to multiple maturities across multiple rungs, like the structure offered through the Global X Long-Term Treasury Ladder ETF (LLDR). A Treasury ladder helps mitigate interest rate risk by spreading the risk across multiple rungs. The staggered maturities of Treasury holdings helps dampen the impact of interest rate volatility due to the periodic rolling of only one rung within the ladder at a time.

GLOBAL X'S TREASURY ETF SUITE TARGETS EXPOSURE ACROSS THE MAJORITY OF THE U.S. TREASURY YIELD CURVE

Sources: Global X ETFs, with information derived from Bloomberg. U.S. Treasury Active Yield Curve as of August 30, 2024.



The bond laddering process also helps address some concerns around reinvestment risk, which is the risk that cashflows from an investment cannot be reinvested at rates comparable to its current rate of return. Essentially, there is a risk that proceeds are reinvested at lower coupon rates, thereby generating a lower rate of return than the previous investment. Cash holdings are particularly exposed to reinvestment risk, given their direct exposure to short-term rates. However, a laddered portfolio of bonds can help mitigate reinvestment risk by holding a range of different maturities. By periodically reinvesting only a portion of the fund's assets, the risk of having to reinvest at a less attractive rate is generally localized to the shortest portion of the portfolio. Should interest rates decline, only the maturities on the shortest rung of the ladder must be sold and reinvested at lower market rates.

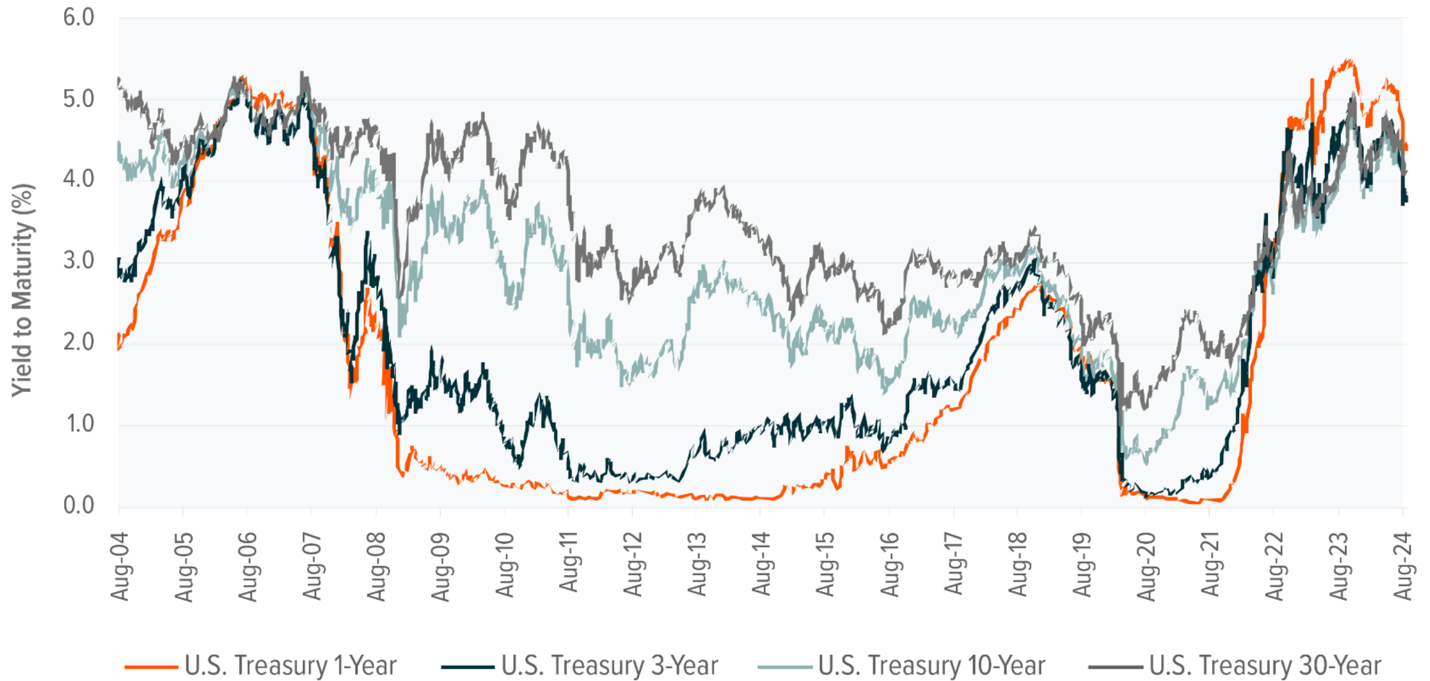
Treasury Ladder ETFs Offer Convenience and Exposure to Competitive Yields

We believe that the ETF wrapper affords diversified Treasury exposure while attempting to replicate a laddered portfolio strategy with minimal initial outlay. Building a bond ladder from scratch can be costly and requires direct investor oversight, which can be onerous for passive investors. In our view, the share-based nature of ETFs reduces the need for significant upfront cash outlays to achieve diversification, while the passive strategy and fund management helps automate the investment process. Furthermore, the economies of scale achieved through the ETF wrapper may help reduce trading costs incurred through the purchase of individual bonds while improving liquidity, as ETFs can be traded on an exchange like stocks.

Since 2021, Treasury yields have grown in both real (inflation-adjusted) and nominal terms, even as inflation has receded. As of July 31, 2024, the 10-year Treasury bond yielded 4.09% while the year-over-year change in the Consumer Price Index stood at 2.9%, translating into a nearly 1.19% real yield.[1] With Treasuries currently yielding near their highest level in almost two decades and the Federal Reserve widely expected to cut interest rates, we believe this represents a compelling value proposition for investors seeking income. While history has shown that cash can outperform during rate tightening cycles, it tends to underperform Treasuries when interest rates drop. We think this accentuates the argument for extending one's maturity exposure in the current market environment, particularly given the over $6 trillion of cash still sitting in money market funds near the end of August, 2024.[2]

20 YEAR HISTORICAL YIELDS FOR VARIOUS TREASURY MATURITIES

Sources: Global X ETFs with information derived from The Federal Reserve Bank of St. Louis. Market Yields on U.S. Treasury Securities at 1, 3, 10, and 30-Year Constant Maturities from August 1, 2004 to August 30, 2024. Data retrieved September 3, 2024.



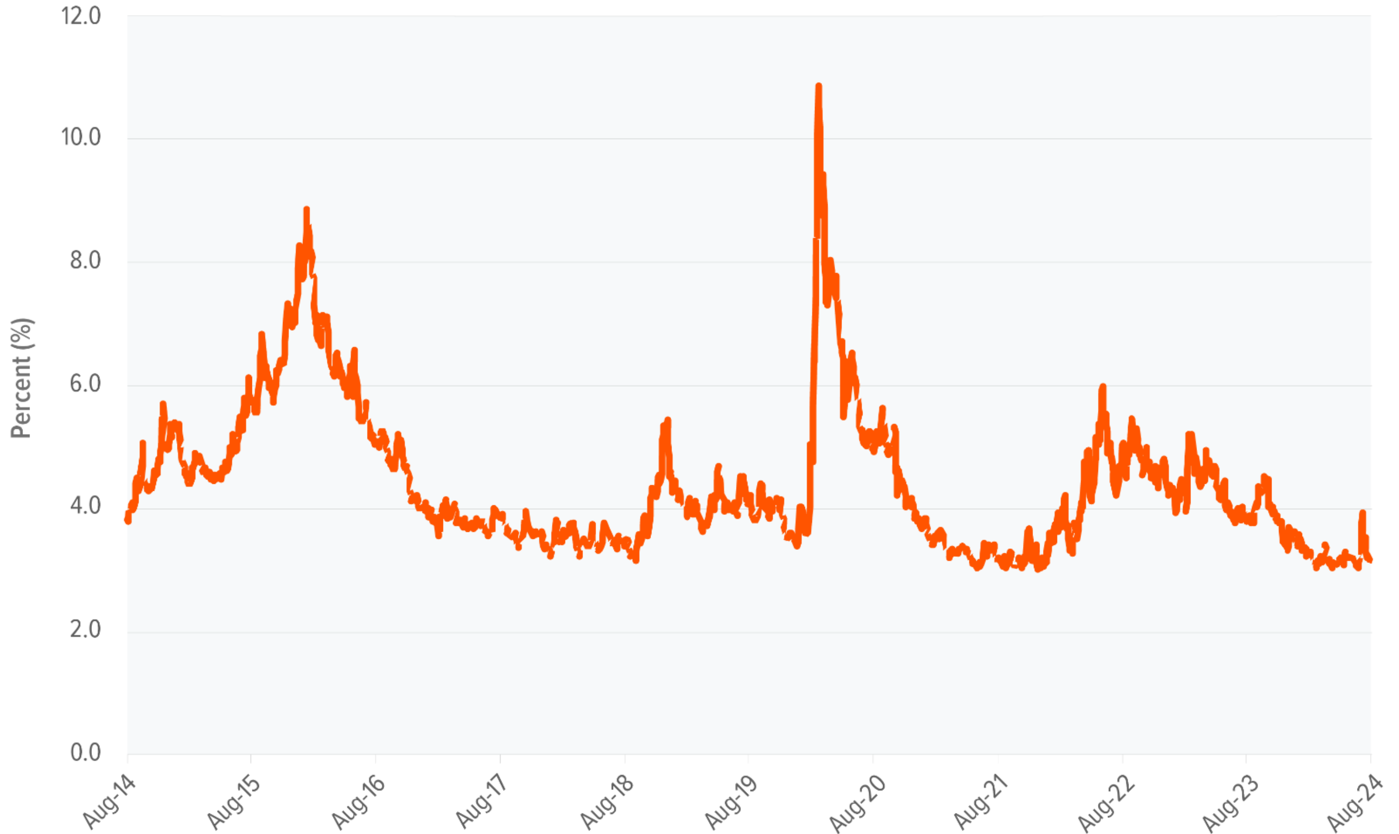
Quality and Interest Rate Risks Remain Key Concerns

Another key argument for Treasury Ladders lies in the pursuit of credit quality when procuring bond holdings. Recent market volatility accompanied by weakening economic data emphasizes the need for quality allocations to fixed income. This impact was illustrated in early August, when option-adjusted credit spreads for high yield bonds rose abruptly off their lowest levels since January 3rd, 2022. Indeed, from July 23rd, 2024, when the ICE BofA High-Yield Option Adjusted Spread was trading at 3.05, it proceeded to widen by nearly 22% over nine trading days to August 5, 2024.[3] Although these credit spreads retightened in the weeks following the runup, we believe the potential for these credit spreads to widen so rapidly illustrates their potential outsized impact on speculative grade corporate debt versus investment-grade bonds, thus supporting the argument for government bonds.

Relative to historic spreads, investors might also not be adequately compensated for taking on additional credit risk in the current environment, particularly as credit spreads currently sit near their tightest levels in 3-years. Credit spreads tend to widen during periods of market volatility, as investors tend to trade out of credit-risky assets and into investment grade and government bonds in a “flight to quality.” While we consider a 2020-style surge in credit spreads to be unlikely, there is still potential for spreads to widen considerably from current levels, even when comparing them to recent history. We believe the risk of spread widening rises as economic conditions weaken. Should credit spreads widen, credit-risky assets like high yield corporate debt would likely underperform comparable investment-grade bonds.

HIGH-YIELD OPTION-ADJUSTED SPREADS ARE HISTORICALLY THIN

Sources: Global X ETFs and the Federal Reserve Bank of St Louis. Daily High Yield Index Option-Adjusted Spread from August 31, 2014 to August 31, 2024. Data retrieved September 6, 2024.



Interest rate risks are also likely to remain top of mind for fixed-income investors. As of the end of August 2024, the spread between the 2-year and 10-year Treasury yield was at its tightest level in nearly 2 years.[4] Given the relative flatness of the Treasury curve, investors will likely face a difficult decision regarding their preferred duration exposure as we reach year end. This may be a suitable moment to consider employing a selection of diversified Treasury Ladder ETFs to finetune one's fixed-income allocation.

Treasury Ladder ETFs Are a Timely Opportunity That May Help Diversify Fixed Income Portfolios

We believe that Treasury Ladder ETFs can serve as an effective core holding within a broader fixed income sleeve. The high credit quality and diversification offered through a Treasury ladder may help dampen both credit-driven and duration-driven volatility in fixed income. We think such passive ETFs are particularly useful, as their tradability, relatively low-cost, and predictability makes them attractive for investors. We believe our suite of Treasury Ladder ETFs represents an attractive addition to the core holdings of any fixed income portfolio; this strategy is particularly compelling, given the current stage in the market cycle.

Related ETFs

LLDR – Global X Long-Term Treasury Ladder ETF

MLDR - Global X Intermediate-Term Treasury Ladder ETF

SLDR - Global X Short-Term Treasury Ladder ETF

Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk.

Footnotes

1. U.S. Bureau of Labor Statistics. (2024, August 14). Consumer Price Index Summary.
2. Investment Company Institute. (2024, August 29). Release: Money Market Fund Assets.

3. Federal Reserve Bank of St. Louis. (n.d.) ICE BofA US High Yield Index Option-Adjusted Spread. Accessed on August 28, 2024.
4. Federal Reserve Bank of St. Louis. (n.d.) 10-Year Constant Maturity Minus 2-Year Treasury Constant Maturity. Accessed on September 6, 2024.

Glossary

Interest Rate Risk: This risk of negative price impact driven by changes in interest rates.

Credit Risk: The risk of default by an issuer.

Option-Adjusted Credit Spread: The difference in yield between a credit risky bond and a government bond of the same maturity, adjusted to account for the impact of any embedded options.

Duration: A measure of a bond's sensitivity to changes in interest rates. The greater the duration, the more sensitive the bond.

Yield to Maturity: The annual rate of return on a bond if held to maturity.

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