WELLS FARGO
INVESTMENT INSTITUTE

Institute Alert

TIMELY GUIDANCE THAT MAY AFFECT YOUR INVESTMENT STRATEGY

January 15, 2020

Increasing Our Interest-Rate Targets

No guidance or allocation changes

Global Fixed Income Strategy Team

Forecast changes

» *Global Fixed Income: We are raising our 2020 year-end target ranges for the federal funds rate, along with 10-year and 30-year U.S. Treasury yields.*

☐ Guidance change

☑ **Forecast change**

☐ Allocation change

Wells Fargo Investment Institute 2020 year-end target changes

	New 2020 year-end target	Previous 2020 year-end target
Federal funds rate	1.50%-1.75%	1.25%-1.50%
10-year U.S. Treasury yield	1.50%-2.00%	1.25%-1.75%
30-year U.S. Treasury yield	2.00%-2.50%	1.75%-2.25%

Source: Wells Fargo Investment Institute, January 15, 2020.

We are increasing our 2020 year-end federal funds rate target range by 25 basis points.[1] Our new year-end federal funds rate target range is 1.50%-1.75%. Our new target implies that the Federal Reserve (Fed) will remain "on pause" through year-end 2020. We also are raising our 10-year and 30-year Treasury yield target ranges by 25 basis points. Our 2020 year-end target range for the 10-year Treasury yield now stands at 1.50%-2.00%, while our year-end, 30-year Treasury yield target range is now 2.00%-2.50%.

Positive trade developments over the past month have helped to ease concerns related to global growth uncertainty, yet geopolitical headwinds continue to keep markets on edge. While the Fed has been pumping liquidity into the financial system and likely will continue to do so in the near term, Federal Open Market Committee (FOMC) members appear content to take an extended pause in any additional adjustments to the federal funds rate. At the December FOMC meeting, not a single committee member projected a rate cut in 2020. Markets are not quite as sanguine, with fed funds future traders still looking for one Fed rate cut before year-end. In our opinion, it likely would take a significant change in the data to push the Fed to act on interest rates this year.

Overall, market and systemic factors are likely to keep rates contained in 2020. We are maintaining our yield-curve positioning with this change as we continue to see a relatively flat but still upward-sloping yield curve in the year ahead. With this in mind, we believe that investors should position portfolios with a favorable duration or maturity profile, positioning portfolio duration above that of their individually selected benchmarks.[2] While we expect relatively low rates to be supportive of risk assets, we believe that weakening fixed-income credit fundamentals demand a focus on quality.

[1] One hundred basis points equal 1.00%.
[2] Duration is a measure of interest-rate risk.

Risk Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk.

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