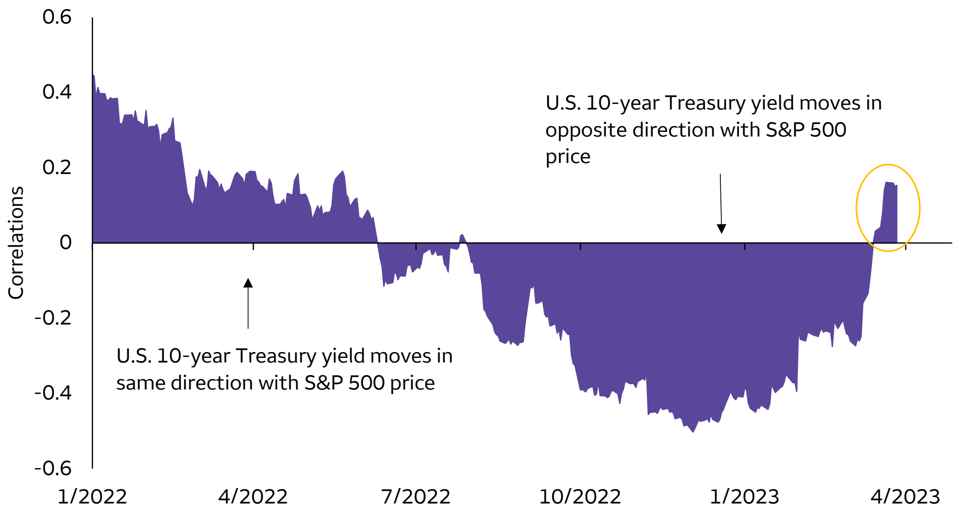
WELLS FARGO
Investment Institute

Chart of the Week

Weekly market analysis on key market indexes | April 18, 2023

Bonds may be back in vogue as a portfolio diversifier



Sources: Bloomberg and Wells Fargo Investment Institute. Data as of April 3, 2023. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Rolling 60-day correlation between S&P 500 Index and U.S. 10-year Treasury yield

During the first quarter of 2023, investors faced rising interest rates, a possible recession, and bank failures not seen since the financial crisis of 2008. Even so, Wells Fargo Investment Institute's three-asset-group allocations remained broadly positive year-to-date (through the end of March).

Stock prices and bond yields moved in different directions in the second half of 2022 and the initial months of 2023; in other words, bond prices, which move in the opposite direction of yields, fell with stock prices. But we noticed a reversal of this trend in March 2023 as inflation has declined. The S&P 500 Index and the 10-year U.S. Treasury yield showed signs of moving in the same direction. This reversal has begun to provide diversification benefits for portfolios holding stocks and bonds.

What it may mean for investors

In this environment, investors may want to consider holding stocks and bonds based on our favored levels to help minimize portfolio risk. Fixed-income yields are higher than they were a year ago and may offer investors potential income sources beyond stock dividends and real estate holdings. More broadly, in fixed income, we favor overweighting positions in short- and long-term maturities, and we believe high-credit-quality assets may provide a cushion from credit and default risks.

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This chart was excerpted from the Investment Strategy report dated April 10, 2023

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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. **Stocks** may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **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. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

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