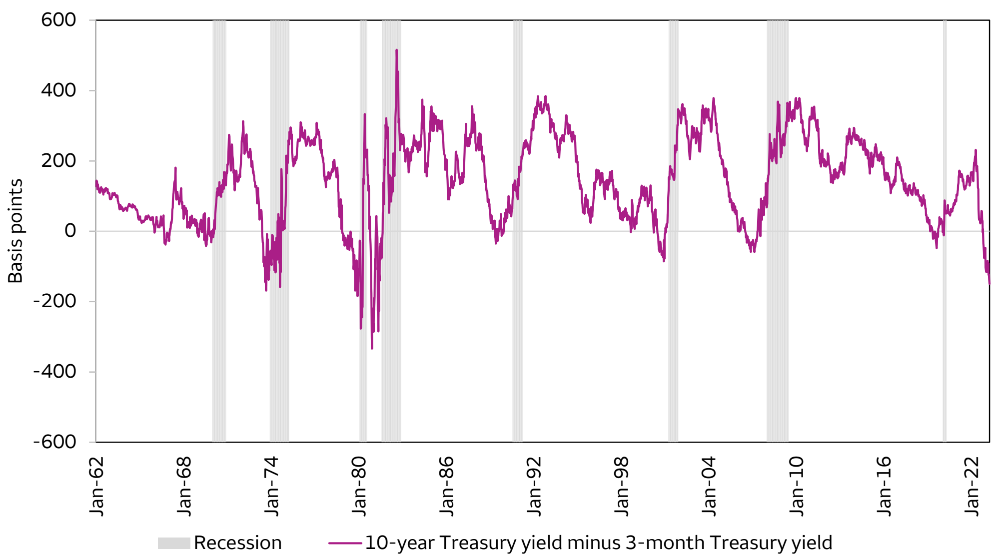
WELLS FARGO
Investment Institute

Chart of the Week

Weekly market analysis on key market indexes | May 2, 2023

Roll with the yield curve by investing wisely



Sources: Bloomberg and Wells Fargo Investment Institute. Weekly data from January 5, 1962 to April 14, 2023. 100 basis points equal 1%. Yields represent past performance and fluctuate with market conditions. Current yields may be higher or lower than those quoted above. **Past performance is no guarantee of future results.**

Around economic recoveries, long-term interest rates have risen faster than short-term rates

The difference between long- and short-term Treasury rates typically gives good signals about the economy, and the chart shows how the pattern has changed from recession to recovery. It plots the difference between 10-year and 3-month U.S. Treasury securities.

Negative slopes, or inversions, have typically preceded recessions. We expect the inversion that began in 2022 to continue through this year. Looking into 2024, we believe the yield curve will regain a positive slope, with long-term rates rising above short-term rates — the typical pattern that has emerged as the economy moves from contraction to recovery.

What it may mean for investors

We expect the Federal Reserve (Fed) to hike rates this month and next month, and then we expect the Fed to hold the federal funds rate at 5.25% – 5.50% for the rest of 2023. On April 21, we upgraded U.S. Short Term Fixed Income from favorable to most favorable, and we remain most favorable on U.S. Long Term Taxable Fixed Income. For tactical portfolios (6 to 18 months), we believe investors should consider reallocating some capital out of U.S. equities into asset classes that we believe offer higher quality and risk-reward balance.

This chart was excerpted from the Institute Alert dated April 21, 2023.

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. **Stock markets** are volatile. Stock values 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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