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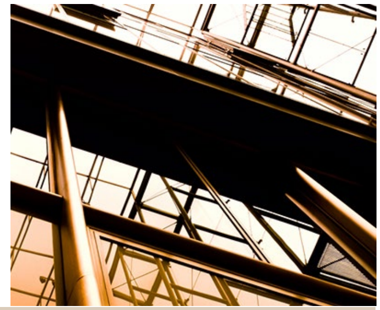
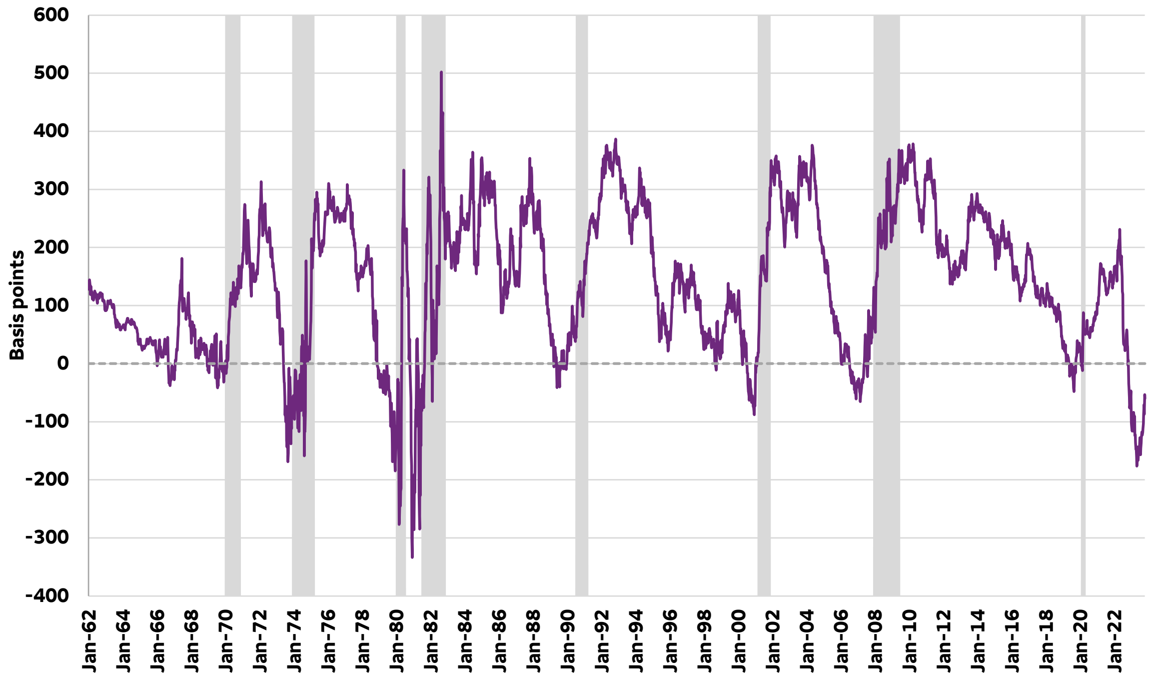
Investment Institute

Chart of the Week



Weekly market analysis on key market indexes | **October 31, 2023**

When an inverted yield curve reverses course



Sources: Bloomberg and Wells Fargo Investment Institute. Weekly data from January 1, 1962, to October 23, 2023. 100 basis points equal 1%. Shaded area represents timeframe of a U.S. economic recession. Yields represent past performance and fluctuate with market conditions. **Past performance is no guarantee of future results.**

10-year U.S. Treasury yield minus 3-month U.S. Treasury yield

This U.S. Treasury yield curve has been inverted since November 8, 2022, meaning that short-term interest rates have been trading above longer-term rates. This inversion — or negative difference between the 10-year U.S. Treasury and the 3-month U.S. Treasury yield — has been a popular recession predictor with an excellent track record.[1]

Over the past month, the U.S. Treasury yield curve inversion has been un-inverting (becoming less negative) at a rapid pace as long-term Treasury yields have moved higher, chasing short-term Treasury yields, which are largely influenced by the Federal Reserve's (Fed's) policy rate.

What it may mean for investors

In six of the past eight recessions, the yield curve has moved from negative to positive slightly before or just about the time the recession appeared. Since our base case is that the Fed will keep policy rates higher for longer, with a high hurdle to cut rates, we believe that in the near term, most of the steepening move should come from higher long-term yields.

Luis Alvarado, Global Fixed Income Strategist

Excerpted from *Investment Strategy* (October 30, 2023)

1. Federal Reserve Bank of San Francisco, Economic Research. *Current Recession Risk According to the Yield Curve*. May 9, 2022.

Risk Considerations

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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. **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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