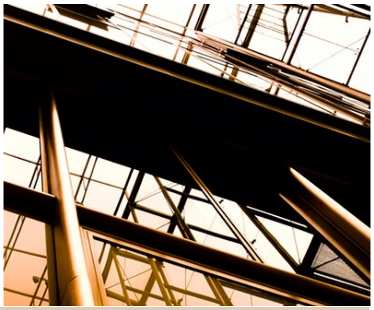
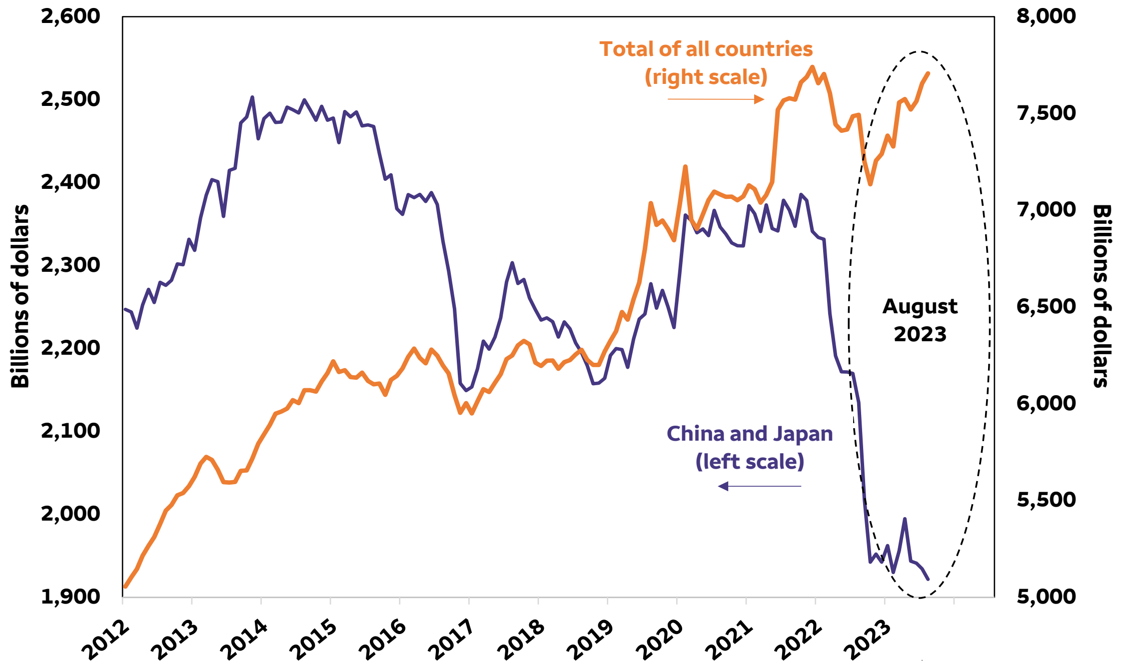
WELLS FARGO
Investment Institute

Chart of the Week



Weekly market analysis on key market indexes | November 7, 2023

The changing nature of foreign investment in U.S. debt



Sources: Wells Fargo Investment Institute and U.S. Treasury Department. Data as of August 2023.

Sell-off by two primary holders masks increased foreign investment in U.S. Treasuries

The foreign share of U.S. Treasury debt is high by international standards — over 30% as of second-quarter 2023. The overseas share and dollar amount of all U.S. debt holdings remains largely unchanged despite an unwind by China and Japan (purple line) in recent years.

International financing of U.S. budget deficits has been as much a curse as a blessing for the U.S. and the global economy. Overseas investment in U.S. debt has been more volatile than domestic holdings when demand for the dollar and Treasuries is dampened by weak fiscal policy and poor economic performance, in part due to more attractive, global alternatives. In the current cycle, the Federal Reserve's credit tightening and perceived safe-haven demand during the global economic slowdown have so far supported the dollar and foreign financing of the budget deficit.

What it may mean for investors

We expect dollar demand to weaken temporarily in response to falling U.S. interest rates and stronger global risk appetite as investors favor other currencies and the world economy recovers later in 2024, perhaps aggravated by reduced foreign demand for U.S. debt.

Jennifer Timmerman, *Investment Strategy Analyst*; **Gary Schlossberg**, *Global Strategist*, excerpted from *Policy, Politics & Portfolios* (October 31, 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. **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. **Foreign** investing has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Currency risk** is the risk that foreign currencies will decline in value relative to that of the U.S. dollar. Exchange rate movement between the U.S. dollar and foreign currencies may cause the value of a portfolio's investments to decline.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-05022025-6072108.1.1