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Investment Institute

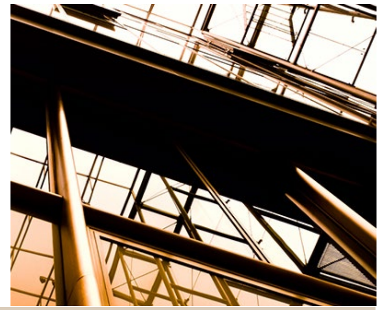

Chart of the Week

Weekly market analysis on key market indexes **November 14, 2023**

Yields may be near cycle peaks, but we see upside bias

Maturity	Treasury	Agency	Corporate A	Municipal AAA	Taxable Equivalent Yield, 37% Tax Rate[1]	Taxable Equivalent Yield, 35% Tax Rate[1]	Taxable Equivalent Yield, 32% Tax Rate[1]
1-Yr	5.42	5.46	5.76	3.81	6.05	5.87	5.61
2-Yr	5.09	5.15	5.59	3.75	5.96	5.77	5.52
3-Yr	4.93	4.99	5.57	3.63	5.76	5.58	5.34
4-Yr	4.90	4.93	5.57	3.57	5.67	5.49	5.25
5-Yr	4.85	4.94	5.64	3.55	5.63	5.46	5.21
7-Yr	4.93	5.08	5.83	3.56	5.65	5.48	5.24
10-Yr	4.93	5.20	6.05	3.64	5.78	5.60	5.36
15-Yr	5.09	5.32	6.28	4.21	6.68	6.48	6.19
20-Yr	5.29	5.53	6.40	4.40	6.98	6.77	6.47
30-Yr	5.09	NA	6.25	4.65	7.38	7.15	6.84

Sources: Wells Fargo Investment Institute, Bloomberg, as of October 31, 2023. 1 – Taxable Equivalent yield (TEY) assumes the tax bracket shown. Income may be subject to state and/or local taxes and/or the alternative minimum tax (AMT). **Past performance is no guarantee of future results.**

Yields across Treasuries, agencies, corporates, and municipals

The Federal Reserve's (Fed's) higher-for-longer stance was reinforced by its November policy decision to leave the federal funds rate unchanged at 5.25% – 5.50%, where it has been since July's rate increase. Yields for all sectors and maturities shown in the table above declined in the days following the policy announcement (from October 31 to November 3), with 1-year Treasuries falling from 5.42% to 5.27% and 10-year Treasuries falling from 4.93 to 4.57%.

We believe that yields are near cycle peaks but that upside bias still remains given the relative strength of the economy at this point in the cycle. We also think that yields at current levels look attractive, especially given our expectation for a U.S. recession. Further, in the event of a recession, we think that long-term Treasuries remain an effective way to blunt the effects of many types of economic and political uncertainty.

What it may mean for investors

We are most favorable on U.S. Short and Long Term Taxable Fixed Income. 10-year U.S. Treasury yields could still move higher in the near term, and for that reason we continue to favor implementing a barbell strategy in bond portfolios, extending duration (measure of a bond's interest rate sensitivity) relative to the portfolio's specific benchmark and prioritizing high-quality investment-grade fixed income. We are also favorable on U.S. Municipal Bonds, and we believe municipal securities are an important part of fixed-income positioning for investors in higher effective tax brackets.

This chart was excerpted from *Daily Market Update* (November 1, 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. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. 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. **Municipal bonds** offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

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