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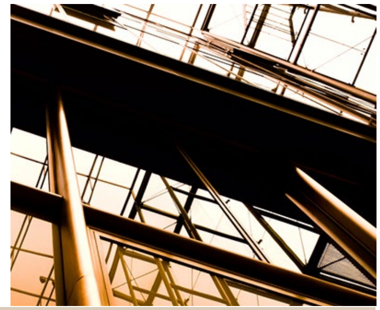
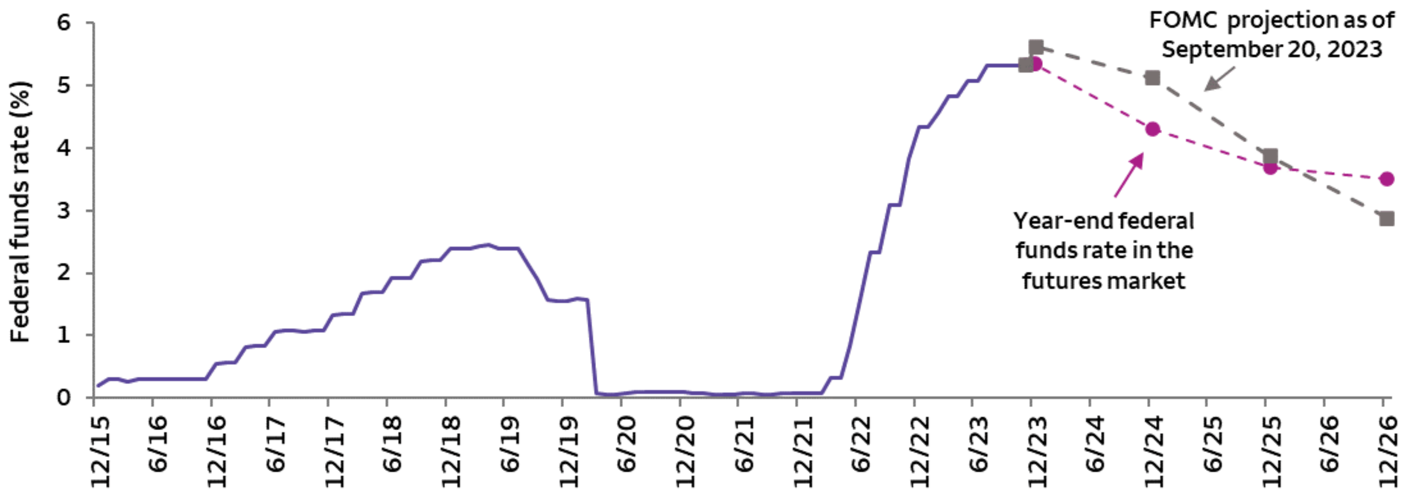
Investment Institute

Chart of the Week



Weekly market analysis on key market indexes | December 12, 2023

Federal funds rate expectations and the bond market



Sources: Bloomberg, Federal Reserve Board, and Wells Fargo Investment Institute. Monthly data from December 1, 2015 to November 30, 2023. 2023-2026 forecasts are as of December 5, 2023. FOMC = Federal Open Market Committee. FOMC projection is the median FOMC projection as of September 20, 2023. Forecasts are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

Differing views on the path of the federal funds rate in 2024

On December 13, the Federal Reserve (Fed) is expected to keep the federal funds rate unchanged while continuing to shrink its balance sheet through quantitative tightening. Of more interest for many Fed watchers will be the new summary of economic projections. Fed funds futures show that the market is expecting four to five rate cuts in 2024 — the Fed, on the other hand, anticipated a year-end federal funds rate of 5.10% as of its September summary of economic projections, slightly lower from current levels.

Therefore, in our view, either market expectations or Fed policy messaging will have to adjust in the future. For now, however, the bond market seems content with the Fed on pause — at least until new data emerges that pushes the Fed or markets in a different direction.

What it may mean for investors

We remain most favorable on U.S. Short Term and Long Term Taxable Fixed Income — a pause supports this view on short-term fixed income, and the long-term fixed income asset class has seen strong gains in the past several weeks. Looking further into the future, we may look to reallocate short-term fixed income assets in the event of Fed rate cuts. For long-term fixed income, we would suggest a dollar-cost averaging approach and, if long-term rates dip into the low 4% area as we expected, we would slow accumulation.

Brian Rehling, CFA, Head of Global Fixed Income Strategy

Excerpted from *Investment Strategy* (December 11, 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**, especially foreign 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.

A periodic investment plan such as dollar cost averaging does not assure a profit or protect against a loss in declining markets. Since such a strategy involves continuous investment, the investor should consider his or her ability to continue purchases through periods of low price levels.

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