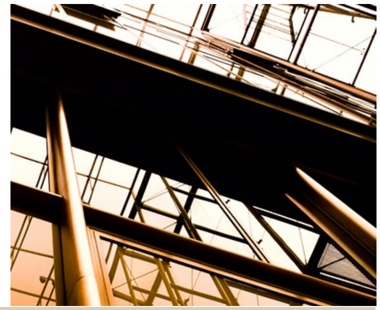
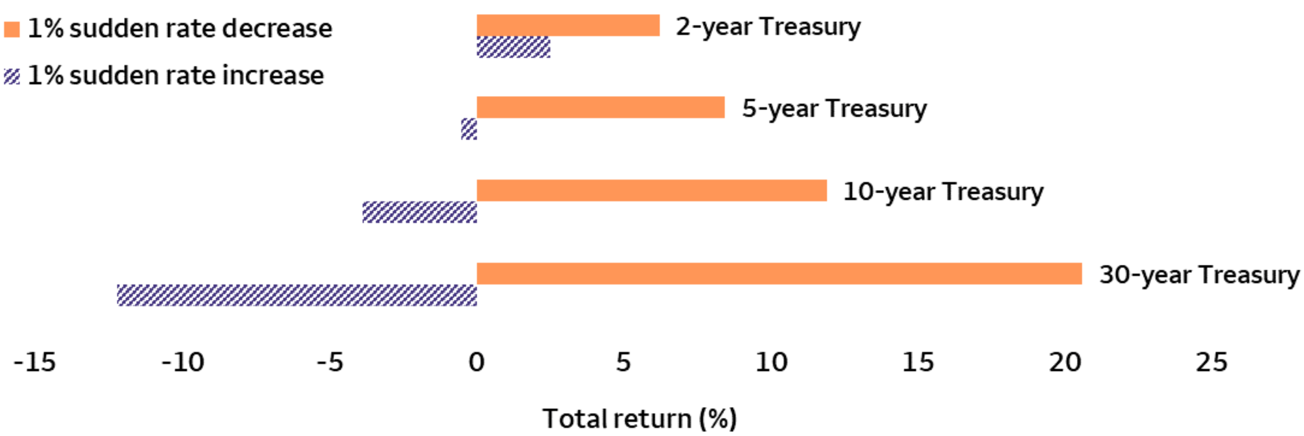


Chart of the Week

Weekly market analysis on key market indexes | **January 17, 2024**

Reallocating into less rate-sensitive fixed income



Sources: Bloomberg and Wells Fargo Investment Institute, as of January 8, 2024. For illustrative purposes only. Yields represent past performance and fluctuate with market conditions. Current yields may be higher or lower than those quoted above. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results**.

Unequal return potential as rates move higher or lower

On January 9, we downgraded U.S. Long Term Taxable Fixed Income from most favorable to neutral and upgraded U.S. Intermediate Term Taxable Fixed Income from unfavorable to neutral, implying a downgrade of duration (a measure of a bond's interest rate sensitivity) from favorable to neutral in our tactical allocations. Our allocations also shifted to favor reallocating from long-term fixed income into intermediate-term fixed income. Intermediate-term fixed income is less rate sensitive than long-term fixed income, demonstrated in the chart above — historically, as time to maturity increased, the relative impact of an increase or decrease in rates on total returns increased notably. In our view, this could be a potential advantage as we expect interest rates to increase later this year toward our year-end 2024 targets. We believe diversifying income streams can potentially dampen portfolio volatility and reduce the probability of wide swings in income levels.

What it may mean for investors

In our view, the highs in yield for this cycle are in the past. The 10-year Treasury yield stood close to 4.0% as of January 9, down significantly from October peaks of more than 4.9%. We believe this reduction presents an opportunity to lock in gains — especially since even with our reduced year-end target ranges, we continue to expect that long-term yields will be above today's levels by year-end.

Now that long-term yields have declined and we hold a most favorable rating only on U.S. Short Term Taxable Fixed Income, we prefer either a ladder strategy (allocations around distinct maturity timeframes) or a bullet strategy (allocations favoring one specific maturity) to match the investor's time horizon and investment objective.

Global Investment Strategy Team

Excerpted from *Institute Alert (January 9)* and *Market Charts (January 5)*

Risk Considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

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.

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

Definitions

A bond ladder is a fixed-income portfolio in which each security has a different maturity date. This helps the investor to reinvest at regular intervals. It can be useful in a rising-rate environment. Keep in mind, bond laddering does not assure a profit or protect against investment loss. Nor does it eliminate interest rate risk as the price of bonds in the ladder will continue to fluctuate as interest rates change. In addition, an investor may still face periodic reinvestment risk.

A bullet strategy is a fixed income strategy in which a portfolio is constructed so that the maturities of its securities are highly concentrated at one point on the yield curve.

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