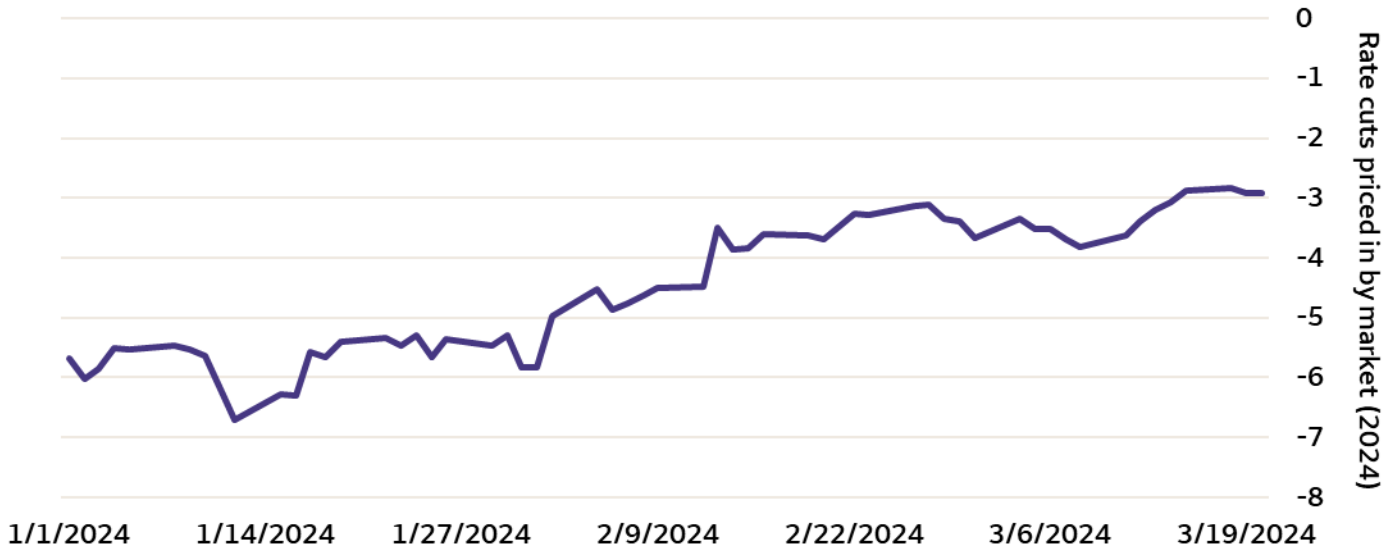


Chart of the Week

Weekly market analysis on key market indexes

March 26, 2024

Pricing in a repricing of rate cuts



Sources: Wells Fargo Investment Institute and Bloomberg. Data as of March 19, 2024. Pricing is calculated using 30 day Fed Funds futures.

Market repricing of 2024 rate cuts has meaningfully impacted long-term fixed-income returns

Markets have seen a drastic reduction in the number of federal funds rate cuts priced in for 2024, as shown in the chart above. Approximately 5.7 rate cuts were priced in at the start of the year, moving as high as 6.7 before declining to 2.9 as of March 19. In contrast, our forecast has called for three rate cuts by year-end 2024 (as of early January). Consequently, we downgraded long-term fixed income from most favorable to neutral with the aim of locking in gains and upgraded intermediate-term fixed income from unfavorable to neutral in January.

As markets have scaled back expectations for the number of rate cuts in 2024, longer-term interest rates have moved higher. This has resulted in a negative impact to long-term fixed-income returns — as of March 19, total returns for U.S. Long Term Taxable Fixed Income saw a 4% year-to-date decline. We think further downward repricing of Federal Reserve (Fed) rate cuts is possible if inflation remains sticky or climbs higher than expected, but this is not our base case for now.

What it may mean for investors

While we expect the Fed to begin cutting rates this summer, we think the declines will occur at a somewhat slow pace. In our view, short-term interest rates are likely to stay elevated for some time, and we therefore maintain our most favorable guidance on short-term fixed income — we believe investors are rewarded with relatively low risk while waiting for more potentially compelling opportunities to present themselves. We currently hold a neutral position in both intermediate- and long-term fixed income for tactical investors.

Tony Miano; Investment Strategy Analyst

Excerpted from *Investment Strategy Report* (March 25)

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