

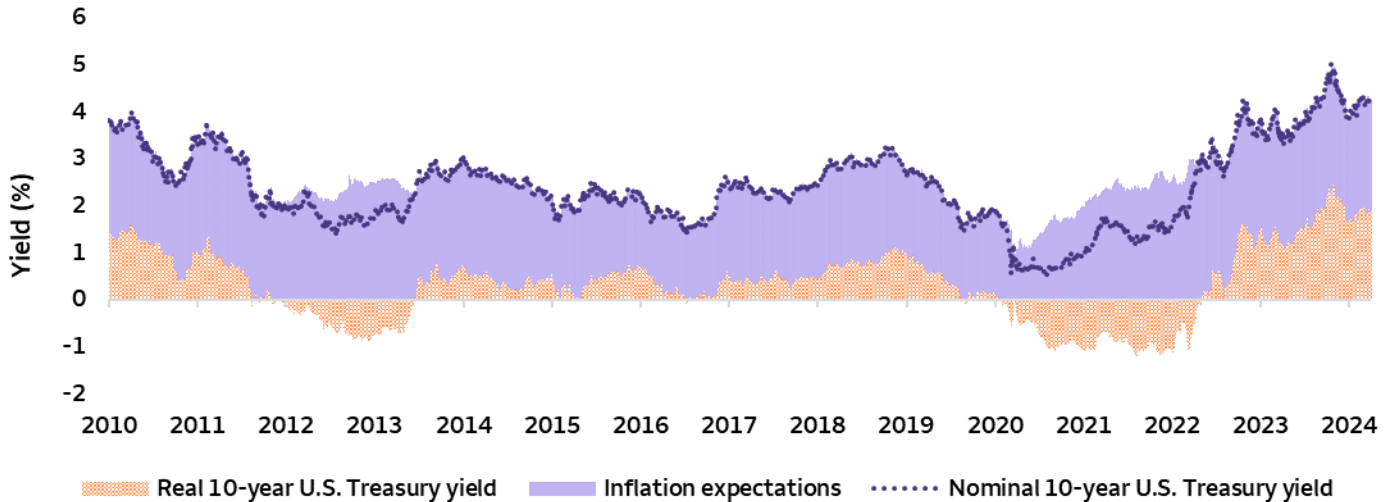


Chart of the Week

Weekly market analysis on key market indexes

April 16, 2024

Why we expect 10-year Treasury yields to remain above 4%



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from January 1, 2010 to March 27, 2024. The real yield is proxied by the yield on the 10-year U.S. Treasury Inflation Protected (TIP) note. The inflation expectations component is proxied by the implied inflation rate on the TIP note. For illustrative purposes only. **Past performance is no guarantee of future results.**

Real yields along with our economic targets suggest longer-term rates likely to trend higher

We made a number of forecast changes in our recent Institute Alert, many linked to our view that accommodative financial conditions merit upward revisions of our forecasts for U.S. gross domestic product growth and Consumer Price Index inflation. However, two things that did not change were our 10-year and 30-year U.S. Treasury yield forecasts for year-end 2024 (4.25% – 4.75% and 4.50% – 5.00%, respectively).

Some investors may wonder why our interest rate forecasts for year-end 2024 and 2025 are consistently above 4%, especially because the majority of consensus estimates appear to be below this figure. The chart above helps explain — real yields on 10-year Treasuries have typically been positive and have recently approached 2%. If our economic growth forecast of 2% is accurate, and if inflation stays above 2% as we expect, then we believe it reasonable for investors to demand at least 4% for a 10-year Treasury yield.

What it may mean for investors

Until we see more evidence of economic slowing and moderating inflation, investors should assume that the near-term trend for longer-term rates is higher. Should long-term interest rates test the upper end of our 2024 year-end target range, we would encourage income-oriented investors to consider locking in rates in longer maturities. We maintain our most favorable guidance on U.S. Short Term Taxable Fixed Income as the Federal Reserve remains on pause.

Global Investment Strategy Team

Excerpted from *Institute Alert* (April 15)

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Definitions

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

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