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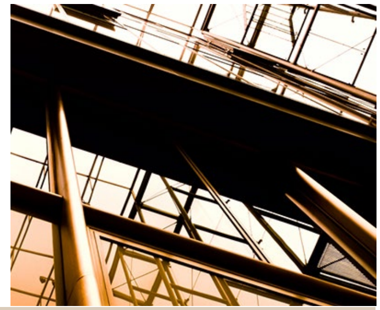
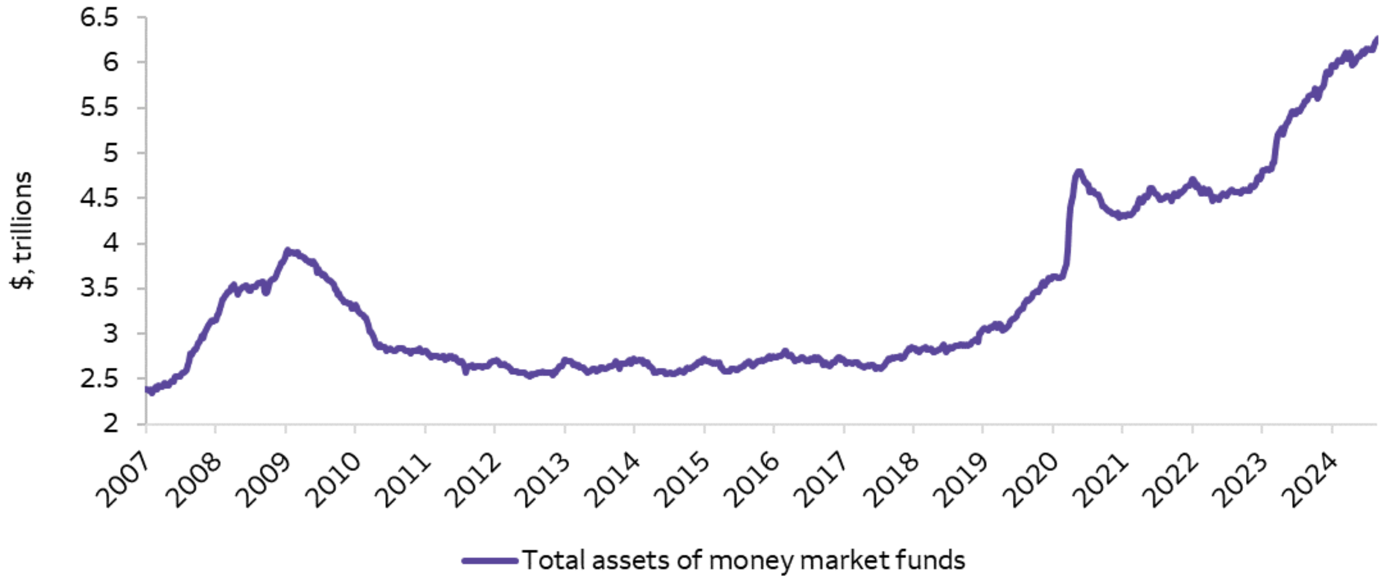
Investment Institute

Chart of the Week



Weekly market analysis on key market indexes — September 17, 2024

Positioning fixed-income holdings for rate cuts



Sources: Investment Company Institute and Wells Fargo Investment Institute. Data as of September 3, 2024. Weekly data from January 1, 2007, to August 28, 2024.

Rotating out of cash as the Federal Reserve (Fed) prepares to cut rates

Over the past two years, money market funds and short-term Treasury bills (T-bills) have been a popular place for investors to park cash as higher interest rates have provided attractive returns with relatively low risks. However, even with Fed rate cuts on the horizon, investors in aggregate do not appear to be in a hurry to rotate out of ultra-short-term investments. On the contrary, inflows to money market funds have continued, as shown in the chart above.

Once the Fed begins cutting rates, market participants expect interest rates to fall at a relatively quick pace. We expect less rate cuts than the market, with our targets implying a 1% decrease in rates for 2024 and 0.75% in 2025, but that still would represent a significant decline from current levels. Consequently, we think investors accustomed to returns above 5% on cash alternatives are unlikely to keep those returns for long.

What it may mean for investors

Our preference is for investors to reposition excess cash or cash alternatives in the face of a Fed rate-cutting cycle and falling interest rates. We favor reallocating into longer-maturity fixed income, and we see attractive yield opportunities coupled with limited exposure to negative price movements in the intermediate portion of the curve. High Yield Taxable Fixed Income may also be a target for excess cash, especially for investors with a need for income.

Luis Alvarado; *Global Fixed Income Strategist*
Tony Miano, CFA; *Investment Strategy Analyst*

Excerpted from *Investment Strategy* (September 9 and 16)

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. 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.

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