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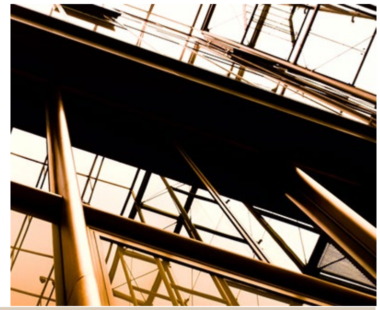
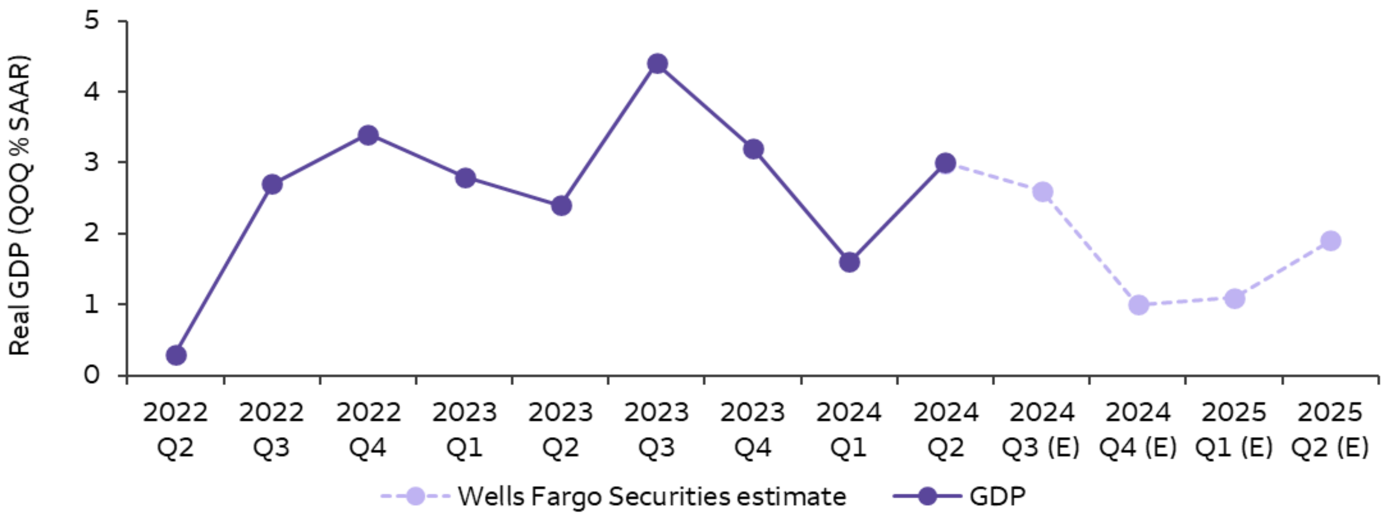
Investment Institute

Chart of the Week



Weekly analysis of key themes in markets October 8, 2024

Positioning in a non-recessionary easing cycle



Sources: Bloomberg, Wells Fargo Securities, and Wells Fargo Investment Institute. Quarterly data from April 1, 2022, to June 30, 2024. Q3 2024 – Q2 2025 are Wells Fargo Securities forecasts, as of September 19, 2024. GDP = gross domestic product. QOQ = quarter over quarter. SAAR = seasonally adjusted annual rate. Forecasts are based on certain assumptions and on views of market and economic conditions which are subject to change.

Bond yields have typically fallen during easing cycles, but we think this time is different

While bond yields have typically fallen during easing cycles, we believe this time is different as the federal funds rate has come down in a non-recessionary economy. The economy keeps growing at a faster pace than many expected, as shown in the chart above — second-quarter gross domestic product (GDP) grew at a rate of 3%, and preliminary third-quarter estimates are well north of 2%. Wells Fargo Securities' third-quarter GDP estimate, for example, sat at 2.6% as of August 31.

Given the non-recessionary backdrop, we think that much of the fall in yields has already been priced in across the yield curve. Our view is that growth will slow noticeably in the coming couple of quarters before moving higher in the second half of 2025. If that is the case and inflation also moves higher (as we expect), longer-term yields are likely to climb meaningfully higher than current levels, equating to negative price performance based on today's yield.

What it may mean for investors

We continue to suggest that investors reduce exposure to U.S. Long Term Taxable Fixed Income (unfavorable) and move to U.S. Intermediate Term Taxable Fixed Income (three- to seven-year maturities), where yields are attractive and less sensitive to underlying interest-rate movement. We have also moved to unfavorable on U.S. Short Term Taxable Fixed Income and suggest moving those funds into U.S. Large and Small Cap Equities (favorable and neutral, respectively).

Scott Wren, *Senior Global Market Strategist*
Veronica Willis, *Global Investment Strategist*

Excerpted from Market Commentary (October 2) and Market Charts (October 4)

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** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **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.

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