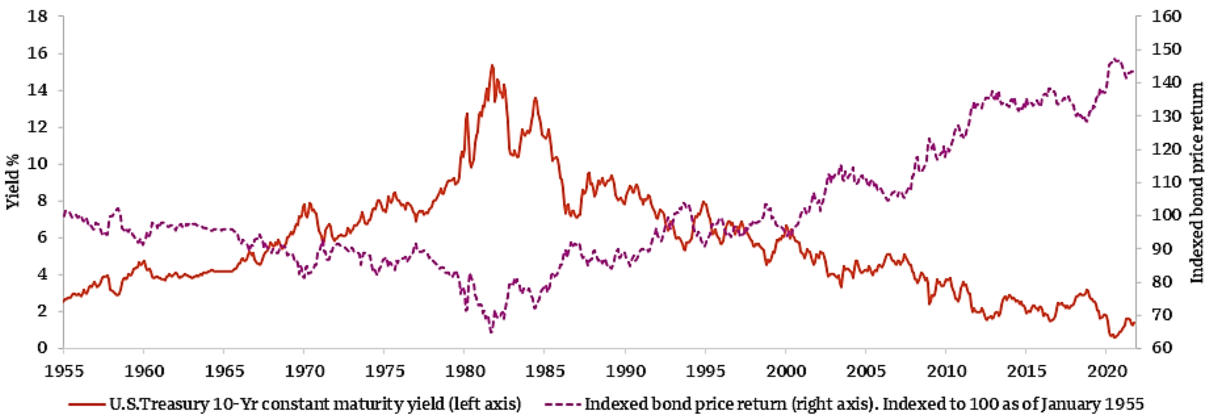
WELLS FARGO
Investment Institute

Chart of the Week

Weekly market analysis on key market indexes — November 2, 2021

Bond prices have tended to fall as bond yields rise



Sources: Wells Fargo Investment Institute, Bloomberg and Morningstar Direct, as of October 21, 2021. Monthly data from January 1, 1955, to September 30, 2021. Yield on the 10-year Treasury Constant Maturities plotted against the cumulative price return of the Ibbotson Associates Intermediate Term U.S. Government Bond price return series indexed to January 1, 1955. 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.**

The inverse relationship between price and yield of fixed-income securities since 1955

Market prices of existing bonds and interest rates have tended to move in opposite directions. When rates have increased, the market prices of existing bonds have tended to decrease. When rates have dropped, prices have tended to increase. The overall low-rate environment of the past decade encouraged issuers to issue bonds with longer-dated maturities and this increased the duration.[1] A higher duration makes bond prices more sensitive to changes in the levels of interest rates.

After multiple years of high single-digit or low double-digit positive returns in bonds, fixed-income investors may have unrealistic expectations about performance. We believe the current environment — with short-term rates near zero and longer-term rates rising — is likely to drive below-average or even negative returns. This may come as somewhat of a shock to investors who may have experienced strong positive bond returns over the past 30 years.

What it may mean for investors

We expect bond yields to rise gradually over the next several years. Our 2022 year-end target range for the 10-year U.S. Treasury yield is 1.75%-2.25%, and our target range is 2.25%-2.75% for the 30-year U.S. Treasury. We are unfavorable on U.S. Short-Term Taxable Fixed Income and most unfavorable on Long-Term Taxable Fixed Income, and we are neutral on U.S. Intermediate-Term Taxable Fixed Income.

Luis Alvarado, *Investment Strategy Analyst* — *Global Fixed Income Strategy*

[1] Duration is a measure of interest rate sensitivity.

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.

Definitions

Ibbotson U.S. Intermediate-Term Government Bond Index is an unweighted index which measures the performance of five-year maturity U.S. Treasury Bonds. Each year a one-bond portfolio containing the shortest non-callable bond having a maturity of not less than five years is constructed. Bonds with impaired negotiability or special redemption privileges are omitted, as are partially or fully tax-exempt bonds starting in 1943. To measure holding period returns for the one-bond portfolio, the bond is priced (with accrued coupons) over the holding period and total returns are calculated.

An index is unmanaged and not available for direct investment.

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