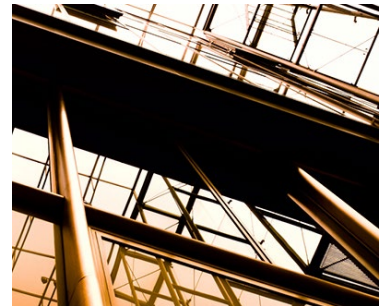


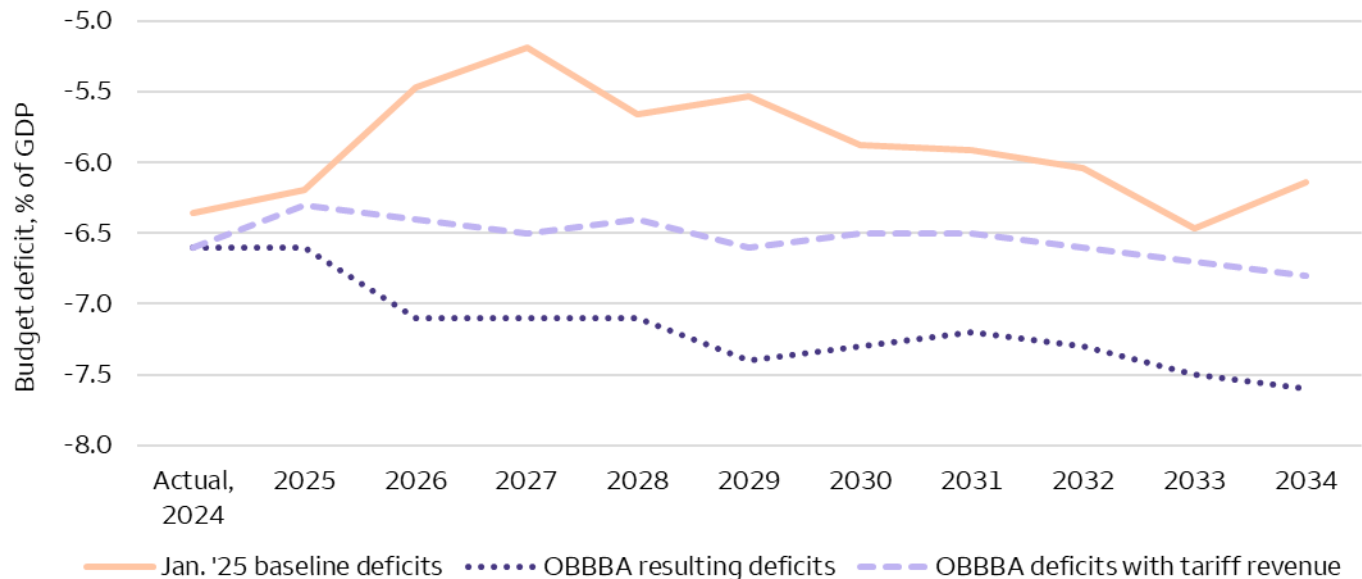
Chart of the Week



Weekly analysis of key themes in markets

July 15, 2025

Implications of budget law for fixed-income market



Sources: Wells Fargo Investment Institute, Congressional Budget Office (CBO), and Committee for a Responsible Federal Budget (CRFB). Data as of July 8, 2025. GDP = gross domestic product. OBBBA = One Big Beautiful Bill Act.

Debt ceiling increase and rising deficits likely keep upward pressure on longer-term yields

Aside from tax and spending cuts, the July 4 reconciliation bill lifted the U.S. debt ceiling by \$5 trillion according to CBO estimates, accommodating expanded government borrowing for the next three years. The bill increases cumulative, 10-year deficits by \$3.3 trillion, largely financed by an estimated increase in tariff revenue. However, even accounting for the estimated tariff revenues over the next decade, U.S. deficits are historically elevated.

As the chart shows, the budget deficit is on track to remain above 6% as a percentage of gross domestic product in the coming years, well above the roughly 3.5% average during the two decades before the coronavirus pandemic. With the consequent rise in the U.S. Treasury's already elevated interest expenses, we believe that growing debt-service costs risk becoming an increasingly important driver of longer-term yields in the bond market.

What it may mean for investors

As the Treasury uses its borrowing authority under the new debt ceiling to increase issuance and rebuild its cash balances in the coming weeks, we expect that volatility in yields may increase. This volatility is a main reason why our investment preference has shifted away from longer-term to intermediate-term (three- to seven-year) maturities.

Jennifer Timmerman, Investment Strategy Analyst

Gary Schlossberg, Global Strategist

Excerpted from Institute Alert, "Potential opportunities as fiscal policy takes shape" (July 10)

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

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. **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.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-01092027-8164213.1.1