WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment | December 17, 2025

[Scott Wren](#)
Senior Global Market Strategist

Last week's S&P 500 Index: -0.6%

Fixed-income outlook and what to do now

Key takeaways

- Investors with large cash or ultra-short-term investments are likely to see yields decline further as the Federal Reserve (Fed) likely cuts rates again next year.
- Our outlook may offer a good opportunity to reduce cash holdings. We favor investment-grade fixed income with maturities between three and seven years.

From an asset-class level, we expect stocks to turn in another year of good performance. But what about fixed-income markets? It may help to understand the recent movements of short- and long-term fixed-income yields. As of December 15, the gap between the yield on the 10-year U.S. Treasury note and the 2-year U.S. Treasury note has widened to roughly two-thirds of a percentage point, its largest gap since January 2022. Historically, this larger spread has tended to accompany broadly stronger equity performance, especially if the Fed is cutting short-term rates (which has tended to reduce the 2-year yield) ahead of an economic reacceleration (which we expect in early 2026). Of course past performance is no guarantee of future results. Nonetheless, these conditions historically have tended to attract long-term bond investors to substitute equities for bonds and helped the 10-year yield to rise alongside equity prices. In fact, that sequence is a cornerstone of our 2026 outlook.

So, what should fixed-income investors be doing now? First note that investors with large cash or ultra-short-term investments (such as money market funds and U.S. Treasury bills) are likely to see those yields decline further as the Fed likely cuts rates again next year. Our outlook may offer a good opportunity to consider reducing cash holdings. What's more, we see excess cash holdings as potentially detracting even more from long-term investment goals: Even if certificates of deposit, money market funds, and U.S. Treasury bill yields slip further as we expect, the U.S. Centers for Medicare & Medicaid Services projects (as of June 25, 2025) that health-care costs will rise by an average of 5.8% between 2026 and 2033. This is a main reason why we are unfavorable on short-term fixed income.

Meanwhile, some volatility could accompany the rise in long-term yields. We see the broadening 2026 equity-market advance as unlikely to be in a straight line. Lingering questions about tariffs and, especially, about the adoption rate of new technologies could produce volatility in equity prices and, by extension, in long-term fixed-income yields. So, we are also unfavorable on U.S. Long Term Taxable Fixed Income. To help avoid the two problems in short- and long-term yields, we favor investment-grade fixed income with maturities between three and seven years. We believe these maturities should exceed short-term yields but shield better from volatility in longer-dated maturities.

Sub-sectors we like within fixed income that currently may offer attractive yields include investment-grade corporate bonds, preferred securities, residential and asset-backed securities, and investment-grade general obligation municipal bonds. In our view, the main goal for investors carrying fixed-income exposure in their portfolios as we move through the new year is income but a critical key to monitor is credit quality. Credit spreads are tight by historical standards, but in an improving economy with moderating inflation, we expect spreads to likely stay in a relatively narrow range.

Risk considerations

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund.

You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not a deposit of the bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

Forecasts are not guaranteed and 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. **Stock markets** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **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. **Municipal bonds** offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk, which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income. Investments in **mortgage-backed and asset-backed securities** are subject to prepayment, extension, and call risks. Changes in prepayments may significantly affect yield, average life, and expected maturity. Extension risk is the risk that rising interest rates will slow the rate at which mortgages are prepaid. Call risk is the risk that if called prior to maturity, similar yielding investments may not be available to purchase. These risks may be heightened for longer maturity and duration securities. **Preferred securities** are subject to interest rate and credit risks. Preferred securities are generally subordinated to bonds or other debt instruments in an issuer's capital structure, subjecting them to a greater risk of non-payment than more senior securities. In addition, the issue may be callable which may negatively impact the return of the security.

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-06162027-8668763.1.1