

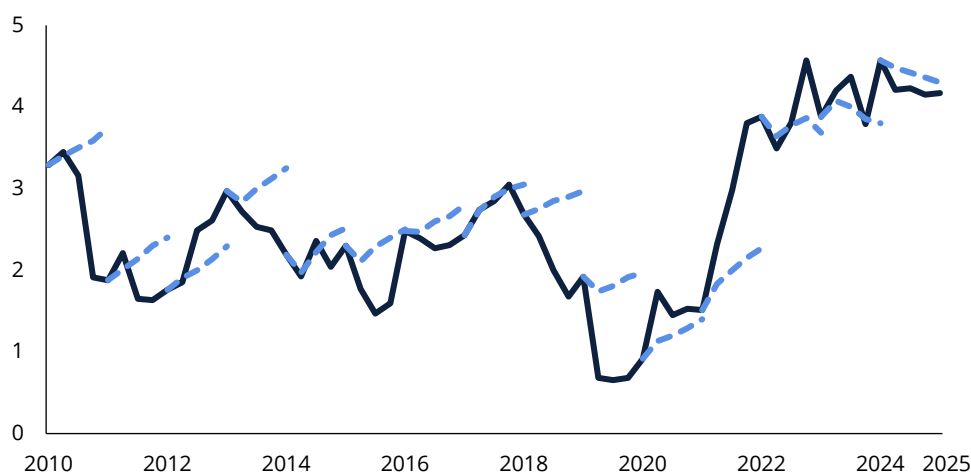
Interest-Rate Predictions Tend to Be Wrong: What It Means for Investors

Why relying on rate forecasts can mislead investors—and what to consider instead.

The chart below reveals a consistent pattern: Expert predictions about interest rates are frequently wrong.

Interest Rates Are Hard to Predict

10-Year Treasury Yield (%) vs. Expert Predictions



Data as of 12/31/25. **Past performance does not guarantee future results.** The dotted lines indicate the median estimate of interest-rate movement by economists at the beginning of each year. Data Sources: Philadelphia Federal Reserve, FactSet, and Hartford Funds, 1/26.

The divergence between expert predictions on rates from actual yields highlights how difficult it is—even for professionals—to anticipate rate movements accurately. This isn't a one-off issue; it's a recurring challenge that underscores the complexity of forecasting interest rates in a dynamic environment.

Why Rate Predictions Often Fail

There are several reasons why these predictions often miss the mark:

- Interest rates are influenced by a wide range of unpredictable factors, including inflation, employment data, geopolitical events, and central-bank decisions
- Mean reversion¹ and lagging economic data further complicate the picture
- Due to the continuing flow of changing data, even the Federal Reserve's own projections (i.e., the dot plot) can quickly become outdated

Therefore, investment strategies based on interest-rate forecasts may introduce significant risk.

Insight from Hartford Funds

Key Points

- Interest-rate forecasts are frequently inaccurate, even among experts, due to unpredictable economic and geopolitical factors.
- Relying on rate predictions to guide investment decisions introduces significant risk and may lead to poor portfolio outcomes.
- Actively managed fixed-income strategies can offer flexibility to adapt to changing conditions and can help clients stay focused on their long-term goals.

What to Consider Instead

Rather than trying to time the market or adjust duration² based on uncertain (and often faulty) predictions, investors may want to consider actively managed strategies that can adapt to changing conditions (as opposed to passive fixed-income investments that are locked into static allocations).

Diversified, flexible strategies that can address changing interest-rate environments may help clients stay focused on long-term outcomes rather than reacting to short-term market noise driven by flawed forecasts.

**To learn more about managing fixed-income risk,
please talk to your financial professional.**

¹ Mean reversion, or reversion to the mean, is a theory used in finance that suggests that asset price volatility and historical returns eventually will revert to the long-run mean or average level of the entire dataset.

² Duration is a measure of the sensitivity of an investment's price to nominal interest-rate movement.

Important Risks: Investing involves risk, including the possible loss of principal. • Fixed income security risks include credit, liquidity, call, duration, and interest rate risk. As interest rates rise, bond prices generally fall. • Diversification does not ensure a profit or protect against a loss in declining market.

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