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Investment Institute

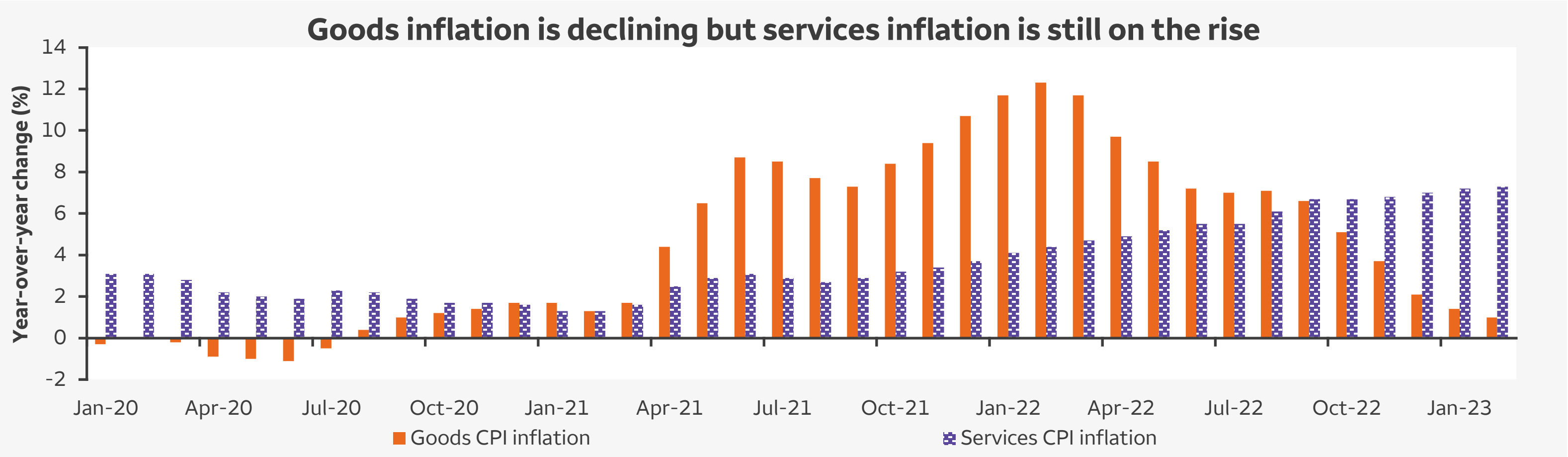
FIRST QUARTER **2023**

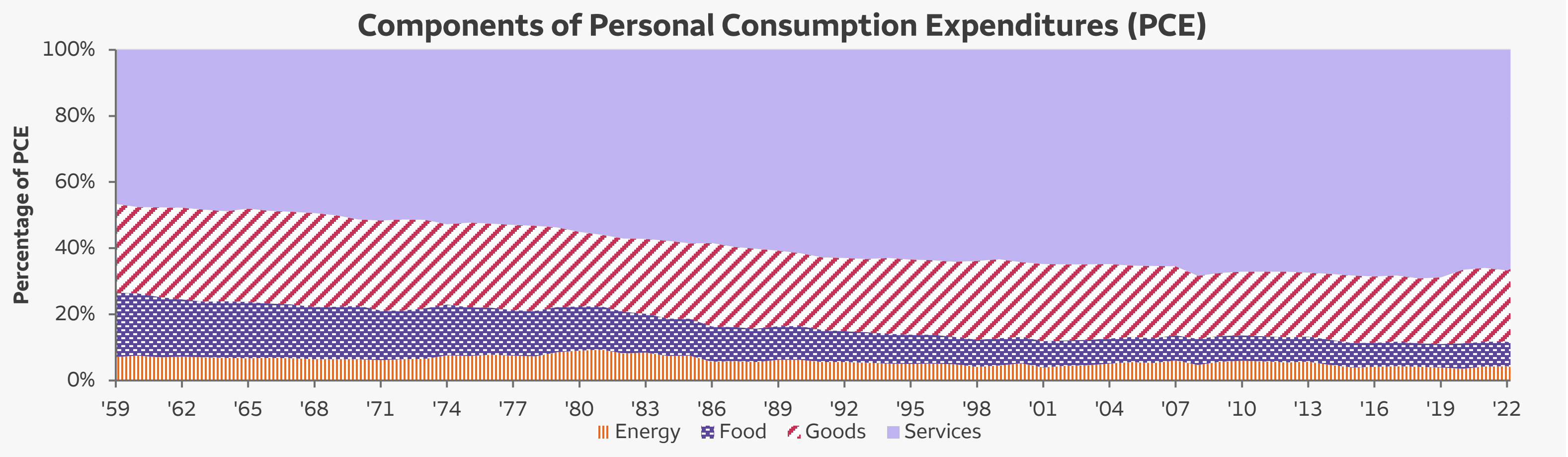
Market Charts

Turning data into knowledge

All data shown in the charts as of fourth quarter (Q4) 2022 and reflect the most recent information available. Please see disclosures for the risks associated with the asset classes and for the definitions of market-based and economic indexes.

Share of services inflation has grown



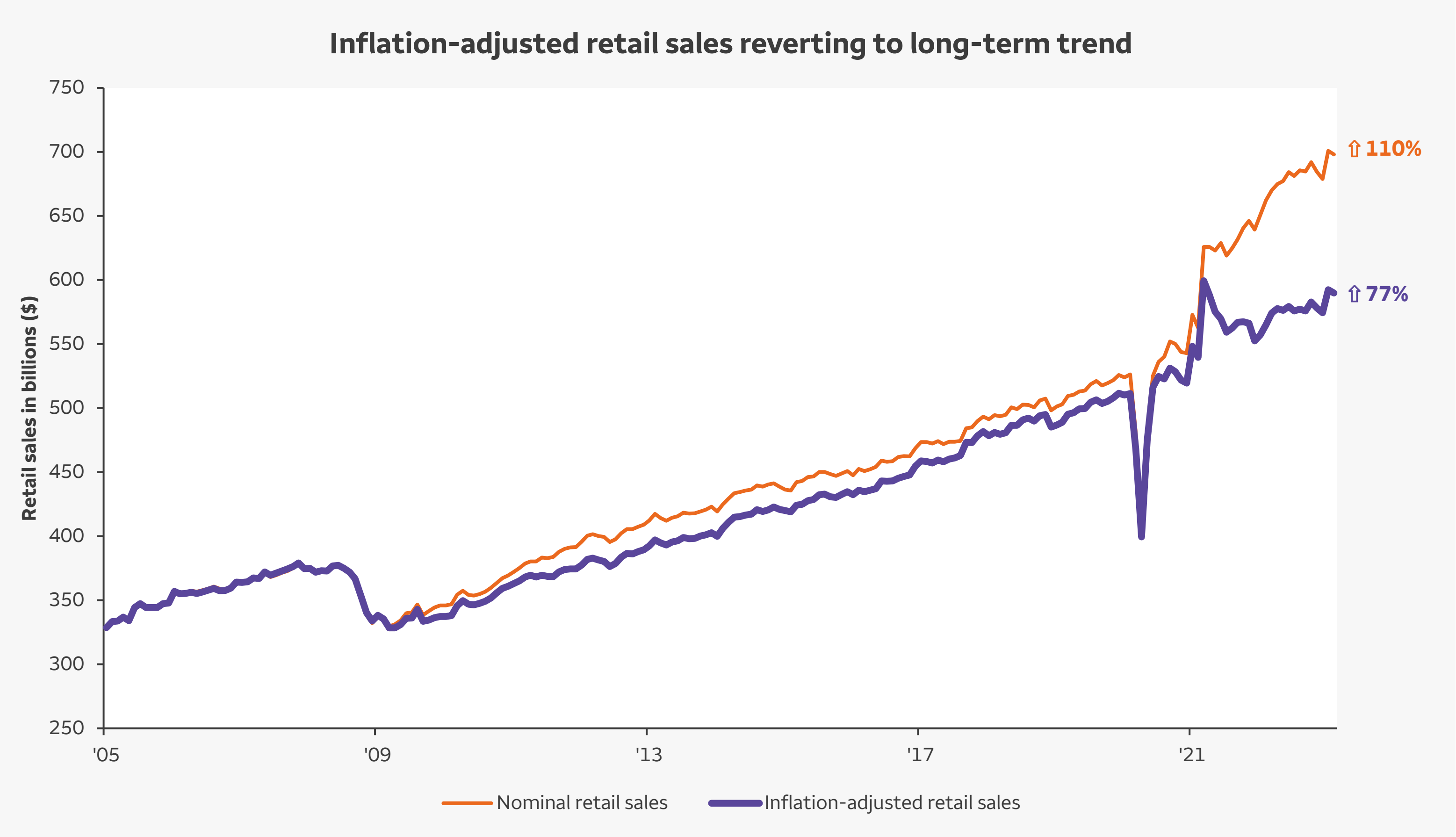


Sources: Bloomberg, Bureau of Economic Analysis, U.S. Census Bureau, and Wells Fargo Investment Institute. Services and all goods spending per household: monthly data from January 1, 2014 to February 28, 2023. PCE components: monthly data from January 1, 1959 to February 28, 2023. PCE (personal consumption expenditure) tracks overall price changes for goods and services purchased by consumers. Services and all goods spending data is adjusted for inflation.

Key takeaways

- Over the past four decades, services has become an increasingly large portion of U.S. inflation. Spending recently has rotated from goods to services as the economy has recovered from the worst of the pandemic.
- Ongoing labor shortages have combined with increased demand for travel, entertainment, and other economically sensitive services to keep inflation elevated, even as improving supply chains and soft demand have suppressed goods-price increases.

Consumer spending has softened recently

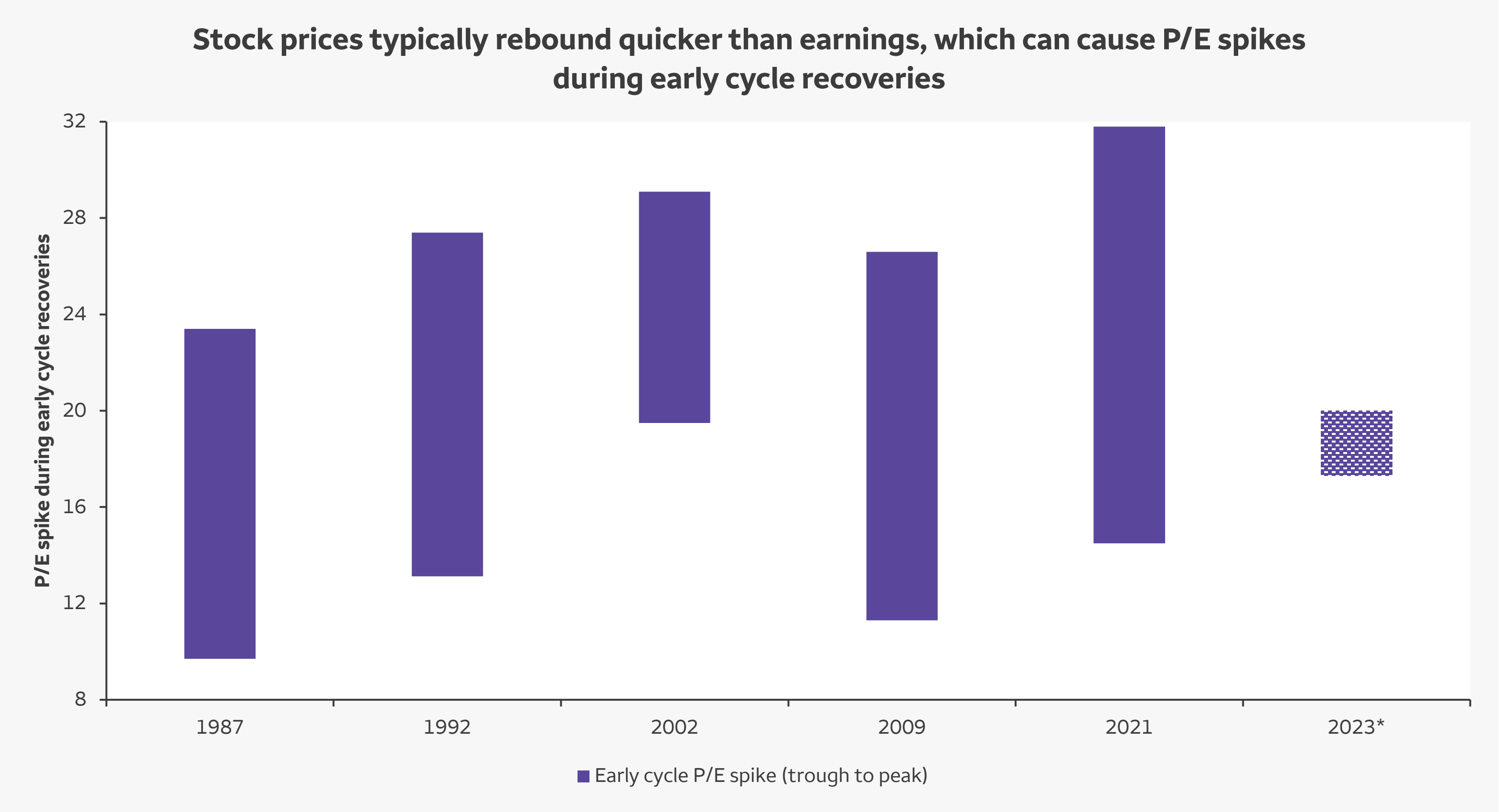


Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data from January 1, 2005 to February 28, 2023. Inflation-adjusted retail sales are adjusted for inflation using Consumer Price Index goods inflation excluding food and energy.

Key takeaways

- Consumer spending was a bright spot for the economy during much of 2022. However, growth has weakened recently, in the face of falling consumer confidence, elevated inflation, and concerns of an economic slowdown.
- After the 2020 recession, nominal (not adjusted for inflation) retail sales have grown at a fast pace. However, part of that growth is attributed to higher prices overall. When adjusted for inflation, retail sales growth has returned to trend.

Early cycle exhibits P/E spikes to 25x – 30x typically



Sources: Bloomberg and Wells Fargo Investment Institute, as of March 31, 2023. The years on the x-axis represent the years in which the price-to-earnings (P/E) multiple peaked during the early cycle spike. *2023 figures use the P/E low observed in 2022 and our forecasted P/E at year-end 2023. The S&P 500 Index is a market-capitalization-weighted index considered representative of the U.S. stock market. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** Investing in stocks involves risk and their returns and risk levels can vary depending on prevailing market and economic conditions.

Key takeaways

- The time frame mismatch between forward-looking prices and backward-looking earnings can cause early cycle P/E spikes.
- This behavior has been consistent throughout history as prices have turned higher well in advance of earnings.

Global equities have tended to underperform during dollar strength

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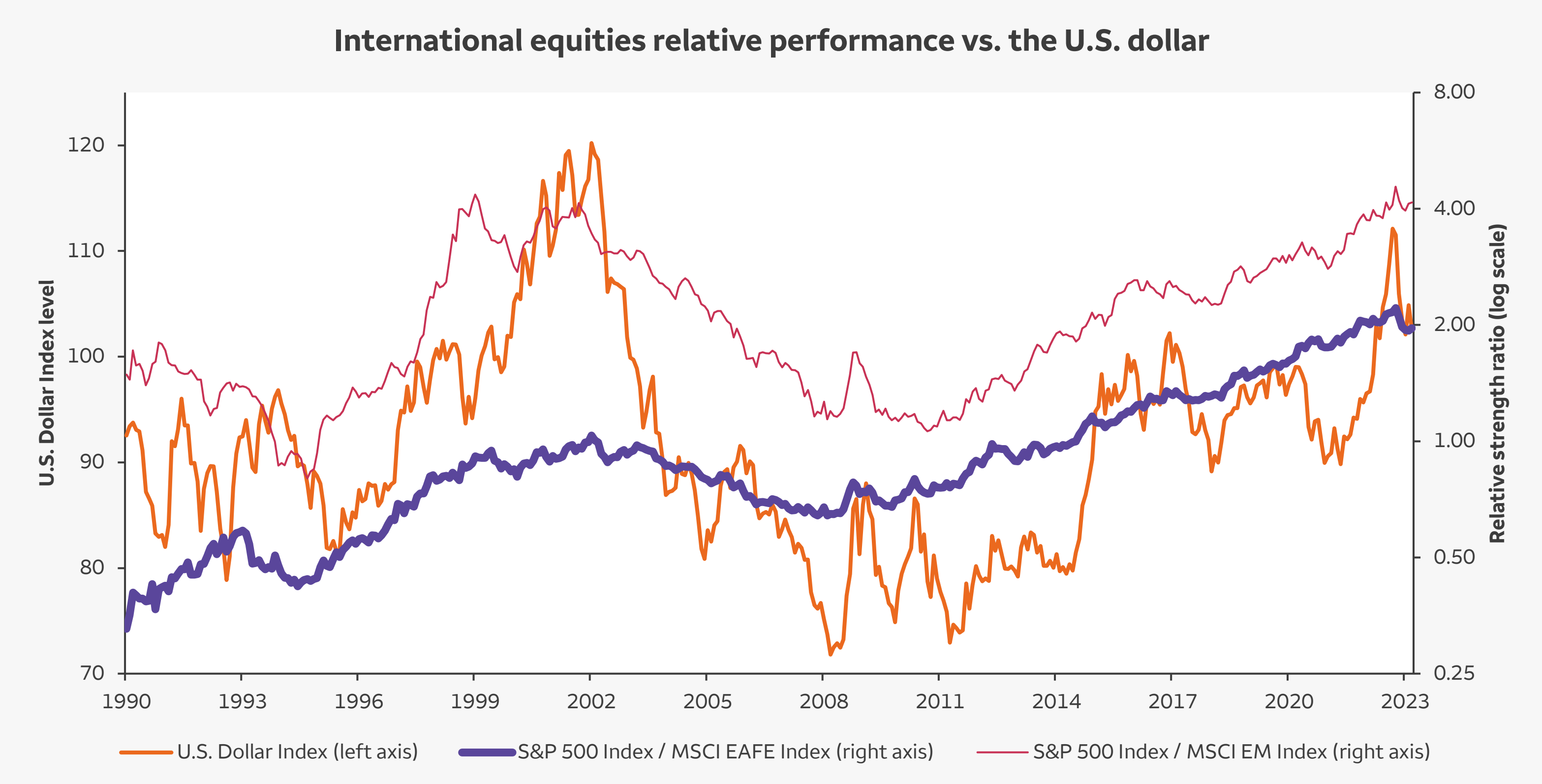

Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data from January 1, 1990 to March 31, 2023. The MSCI EAFE Index and the MSCI Emerging Markets Index are equity indexes that capture large- and mid-cap representation across 21 developed market countries (excluding the U.S. and Canada), and 24 emerging market countries, respectively, around the world. The S&P 500 Index is a market-capitalization-weighted index considered representative of the U.S. stock market. The U.S. Dollar Index measures the value of the U.S. dollar relative to majority of its most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies. Index returns do not represent investment performance or the results of actual trading. Index returns represent general market results, assume the reinvestment of dividends and other distributions, and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. Investments in equity securities are generally more volatile than other types of securities. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Key takeaways

- A strong U.S. dollar, a headwind for international equity prices since 2008, accelerated in 2022.
- The U.S. dollar looks to have peaked in 2022, which should provide some support to international equities.

Developed Market valuations are quite compelling

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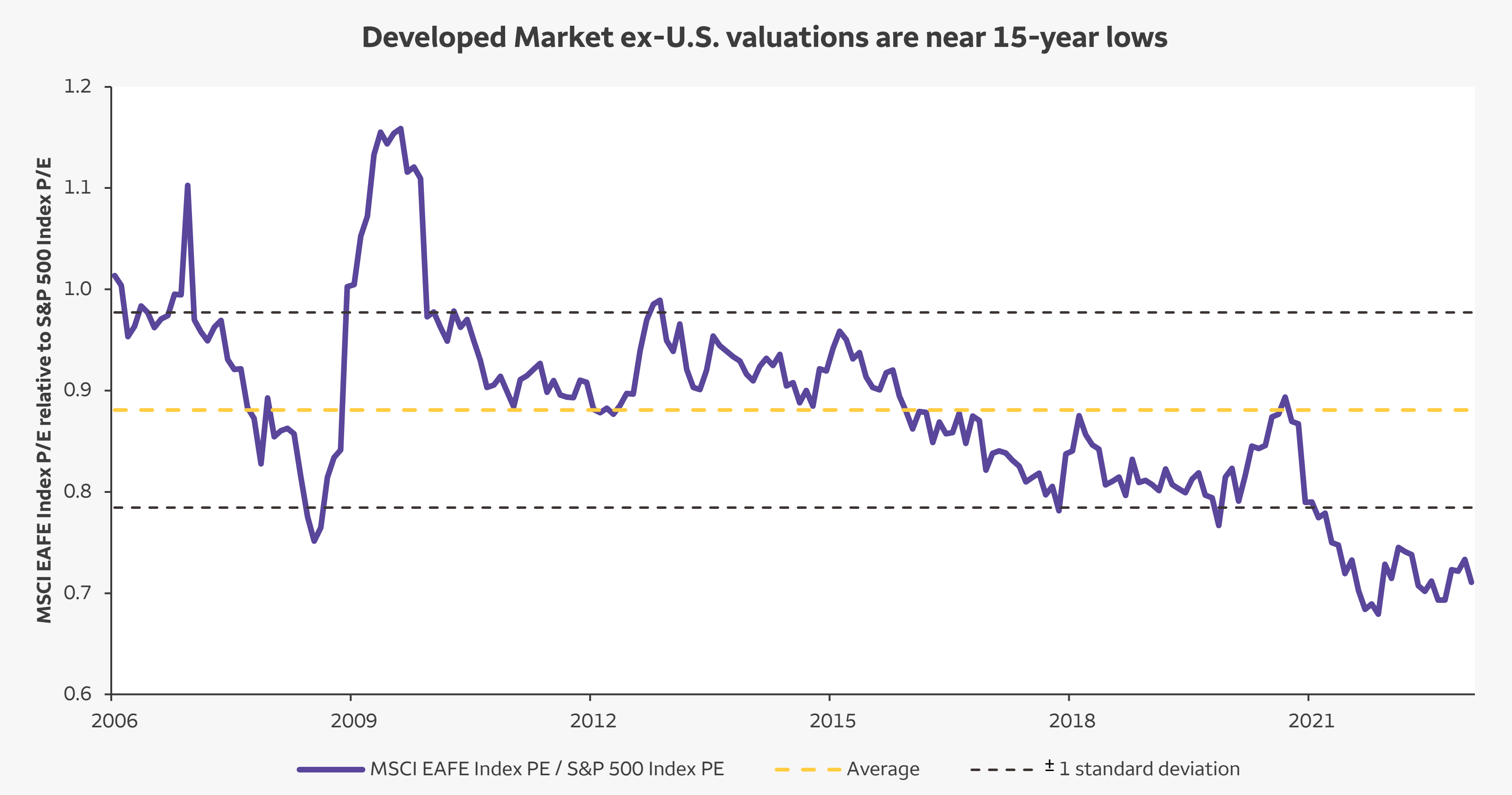

Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data from April 1, 2006 to March 31, 2023. The MSCI EAFE Index capture large- and mid-cap representation across 21 developed market countries (excluding the U.S. and Canada) around the world. The S&P 500 Index is a market-capitalization-weighted index considered representative of the U.S. stock market. Index returns do not represent investment performance or the results of actual trading. Index returns represent general market results, assume the reinvestment of dividends and other distributions, and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. Investments in equity securities are generally more volatile than other types of securities. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Key takeaways

- European earnings have tended to follow economic conditions, which have surprised to the upside.
- While we expect the European economy to enter a recession, the outlook is much improved as fears over an energy crisis have subsided.

General disclosures

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