

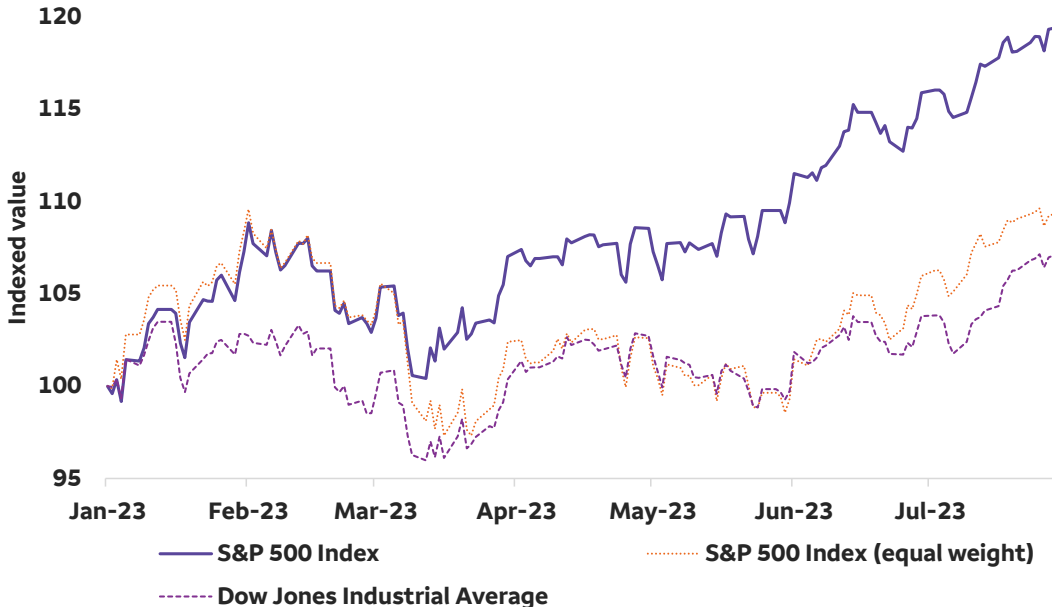


# Chart of the Week

Weekly market analysis on key market indexes

August 8, 2023

## Use pricing extremes to guide equity rebalancing



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data: January 2, 2023 – July 31, 2023. All indexes are indexed to 100 as of January 1, 2023. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

### Equity performance this year still looks narrow

The S&P 500 Index was up more than 20% year-to-date through July, but equity markets thus far have not reflected the negative economic and earnings outlook. Other large-cap indexes, like the Dow Jones Industrial and the equal-weighted S&P 500 Index, have not matched the gains in the S&P 500 Index.

The fact that the S&P 500 Index (thick blue line) has far outgained its equal-weighted equivalent (orange dotted line) signals that the rally has not been broad-based and, therefore, not consistent with an economy in full recovery. The artificial-intelligence (AI) driver for the rally is running ahead of the reality, in our view, and there are still significant uncertainties about how AI integrates into the economy and what regulatory challenges may arise.

#### What it may mean for investors

For portfolios with long-term objectives, our guidance all year has been to use pricing extremes to help guide regular portfolio rebalancing. While we remain favorable on U.S. Large Cap Equities, as we have been throughout the rally, we favor taking profits in technology-oriented sectors and reallocating to quality-oriented sectors (Energy, Health Care, and Materials). We believe a full market-weight allocation (but not an overweight) to Information Technology and Communication Services is a way to take exposure to the AI theme.

**Paul Christopher**, Head of Global Investment Strategy, CFA.

This chart was excerpted from the Institute Alert “Q&A: Managing through the equity rally of 2023” dated July 31, 2023.

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### 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. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Sector investing** can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

### Definitions

**Dow Jones Industrial Average** is an unweighted index of 30 "blue-chip" industrial U.S. stocks.

**S&P 500 Index** is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

**S&P 500 Index Equal Weight Index (EWI)** is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

An index is unmanaged and not available for direct investment.

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