

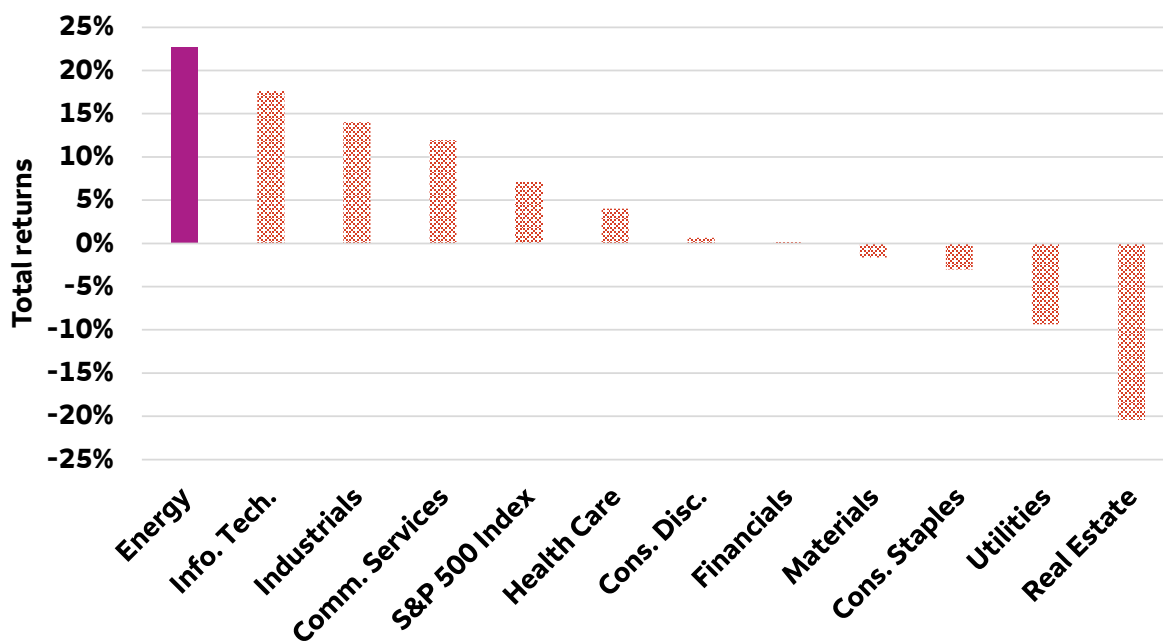


Chart of the Week

Weekly market analysis on key market indexes

August 29, 2023

The case for Industrials as we lighten up on Energy



Sources: Bloomberg and Wells Fargo Investment Institute. Returns are from April 28, 2022 through August 14, 2023 and are shown as total returns which include both price movement and dividends. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Energy has been the top-performing sector since our upgrade last year

On August 15, we upgraded the Industrials sector from neutral to favorable, and we downgraded the Energy sector from favorable to neutral. We believe higher levels of defense and construction spending, the clean energy transition, supply chain re-shoring, data center expansion, and continued supply chain normalization should support the Industrials sector through a recession. Industrials' earnings power has impressed, and we believe valuations are fair.

To fund the Industrials upgrade, we favor taking profits in the Energy sector, which outperformed all other sectors between our April 28, 2022 upgrade and August 14, 2023 (see chart). Oil prices that have recently surged into our 2023 year-end target ranges suggest that there may be limited potential for further energy stock outperformance.

What it may mean for investors

We favor shifting a portion of equity sector allocations from Energy to Industrials. Within Industrials, we favor four sub-sectors: Multi-Industrials, Aerospace & Defense, Commercial and Professional Services, and Rail Transportation.

Austin Pickle, Investment Strategy Analyst

Excerpted from *Investment Strategy* (August 21, 2023)

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. **Stock 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

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market. An index is unmanaged and not available for direct investment.

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