WELLS FARGO
Investment Institute

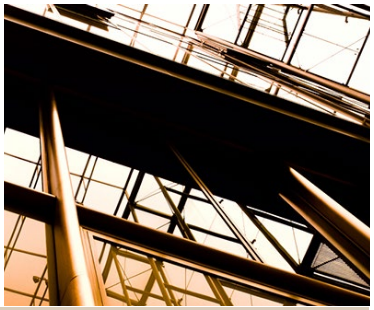
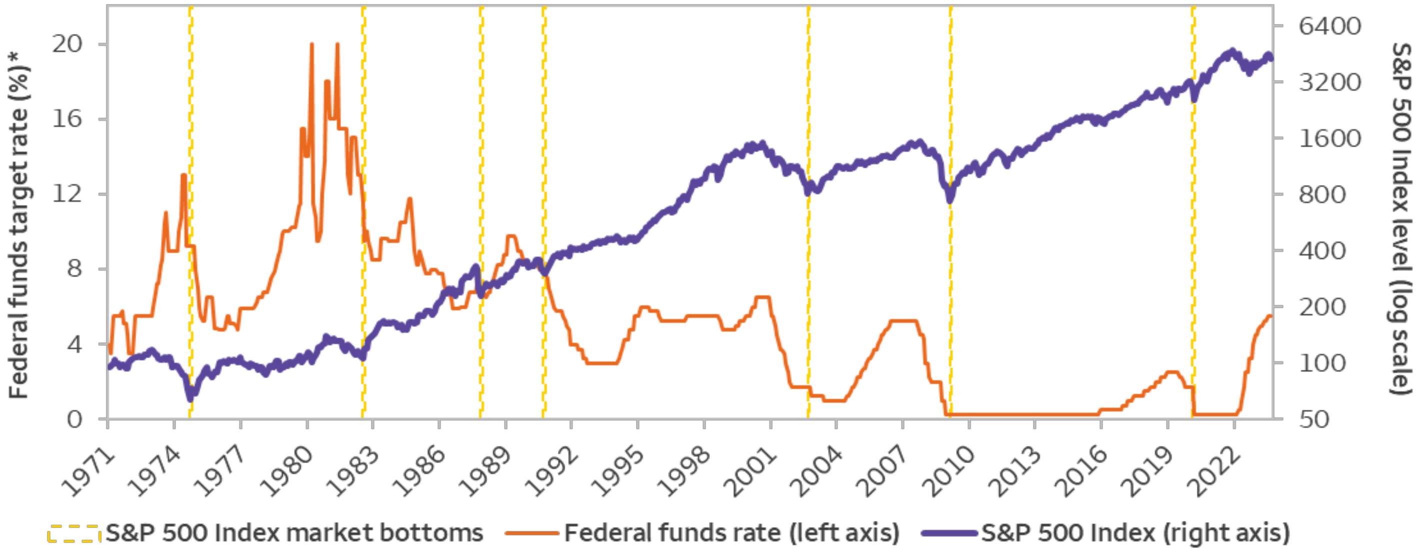


Chart of the Week

Weekly market analysis on key market indexes **January 9, 2024**

Lagged effect of rate hikes on stocks



Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data from January 1, 1971 to September 30, 2023. *Upper bound rate. 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.

From 2023's resilient economy to 2024's anticipated rate cuts

A resilient U.S. economy was on full display in 2023, powered by still-ample liquidity and lingering post-pandemic supports. Despite this recent strength, we think that key pivot points are coming in both the economic cycle and Federal Reserve (Fed) policy — in our view, disinflation should gather enough momentum through what we believe will be a moderate economic slowdown, setting the stage for rate cuts in the second half of 2024. Further, while stocks have experienced a swift rally since November, markets have not historically bottomed until after the Fed starts cutting rates (see chart).

What it may mean for investors

Given our base case for the economy, we reiterate our more defensive portfolio guidance, focusing on quality in both equity and fixed-income positions and exercising patience until signs of a new economic cycle emerge. Overall, our portfolio guidance favors fixed income over equities for now.

Looking ahead, we expect the economic slowdown will weigh on equity markets. Eventually, this should allow for a potential pivot toward riskier asset classes that we believe are most likely to benefit from the subsequent economic recovery, such as small-cap and emerging-market equities, high-yield debt, and more cyclical and growth sectors like Financials, Consumer Discretionary, and Energy.

Gary Schlossberg, *Global Strategist*
Jennifer Timmerman, *Investment Strategy Analyst*

Excerpted from *Investment Strategy* (December 26, 2023)

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. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Growth** stocks may be more volatile than other stocks and there is no guarantee growth will be realized. **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. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk.

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 considered representative of the U.S. stock market.

An index is unmanaged and not available for direct investment.

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