WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment **February 7, 2024**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +1.4%

Not going to happen. Time to move on.

Key takeaways

- With the probability of a March rate cut virtually off the table and chances of a cut in May fading, it's time to move on.
- Three sectors have dramatically outperformed the S&P 500. We recommend trimming exposure in those sectors.

If it wasn't clear to the financial markets prior to last week's Federal Reserve (Fed) monetary policy meeting, it ought to be clear now: A rate cut in March isn't going to happen. Is the probability zero? Well, no it's not, but the chance of a rate cut next month is minimal in our view. And what about a rate cut at the May Fed policy meeting? Chances are dropping there as well as we see it. Why? For one thing, the labor market and consumer spending are still too strong for our central bankers to gain additional "confidence" (Fed Chair Jay Powell's words, not this strategist's) that the inflation dragon has been slayed. The Fed wants more proof before declaring victory.

We do note, however, that as the probability of six or more rate cuts this year continues to fade, the stock market has marched higher and set a string of new records in recent weeks. The advance to new heights has been narrow. A broad swath of stocks has not participated. In fact, only 2 of the 11 S&P 500 Index (SPX) equity sectors have outperformed the SPX over the past two months as of the time of this writing. Optimally, when the stock market trades higher, many stocks and sectors are participating. A broad advance, in most analysts' opinion, is a good thing.

We mentioned outperforming sectors in recent months. Consider that over the past 12 months only three sectors have outperformed the SPX: Information Technology, Communication Services, and Consumer Discretionary. The first two have dramatically outperformed the index. We consider these sectors to be overvalued and favor investors trimming exposures down to our suggested neutral allocations for Technology and Communication Services and an unfavorable (underweight) allocation in Consumer Discretionary. We also favor Financial sector exposure being trimmed to our suggested unfavorable weighting.

With those funds, we suggest bringing portfolio allocations into line with our recommendations in the Industrials, Materials, Health Care, and Energy sectors. All of these sectors have trailed the SPX over the past year, but we believe they have the potential to add value looking ahead. With any remaining funds, we continue to favor using short-term fixed income as a parking spot to place cash until the anticipated equity opportunities are presented over the coming six to nine months.

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

© 2024 Wells Fargo Investment Institute. All rights reserved.

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. **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.

An index is unmanaged and not available for direct investment.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-08062025-6370877.1.1

© 2024 Wells Fargo Investment Institute. All rights reserved.