



Scott Wren
Senior Global Market Strategist

Last Week's S&P 500 Index: -0.6%

Stumbles along the way

Key takeaways

- A number of market segments tied to travel, leisure and consumer spending have been hit hard and have lagged the big rally in the major equity indices.
- In our opinion, investors should take advantage of downside volatility to position for what will eventually be a post-COVID-19 environment.

Markets do not move forever in one direction, up or down. There are pauses, retracements, and profits (or losses) taken along the way. That is a reality we feel will not change as markets march forward toward whatever economic environment lies ahead. Another reality is that these fluctuations can offer opportunities to those who have a well-thought-out plan, no matter which way one believes the market will be moving in coming months and quarters.

Well before the major equity indices hit their most recent all-time record highs in very early September, investors were asking what sectors and underlying sub-industry groups might benefit most in an improved COVID-19 world or, especially, in a post-vaccine world. It makes sense in this case to look at segments of the market that were hit hard during the pandemic and have lagged the huge rally seen since the March 23 panic low. Over the last six months, the Consumer Discretionary sector has been one of the top performers, but a number of the industry groups that make up this sector have taken it on the chin, at the very least on a relative basis. Many companies involved in the travel and leisure segment of the economy have seen their performance meaningfully lag the Consumer Discretionary sector and the overall market (as measured by the S&P 500 Index) as a whole.

We have made the point many times in this weekly commentary that U.S. consumers are responsible for nearly 70% of all domestic economic activity. Therefore, especially in an environment such as the last 10 years when business capital spending growth has been subdued, it is important to get a handle on the ability of the consumer to push the post-COVID-19 recovery ahead in coming quarters and years. Stocks and sectors that will likely see benefits from a boost in consumer spending appear attractive to us. Note that we currently carry favorable ratings on both the Consumer Discretionary and Communication Services sectors. Both are heavily oriented toward consumer spending and should see positives as the economy and employment environment improve as we move into and through next year.

As we look ahead, much hinges on the probability that a COVID-19 vaccine is on the nearer-term horizon. A number of world-class pharmaceutical and biotechnology companies have made numerous public statements that they believe their product will be approved by the FDA for use in the United States. A good deal of the confidence consumers need to venture out and get back to some version of their previous routines (employment and spending) likely depends on an effective vaccine to be available in adequate volumes.

For a high level perspective, we continue to favor the previously mentioned sectors that are very oriented toward the consumer. In addition, we favor the Health Care sector. Our most favored sector continues to be Information Technology. We believe investors should take advantage of stumbles in these favored sectors to increase exposure.

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**, 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.

Communication services companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. Risks associated with the **Consumer Discretionary** sector include, among others, apparel price deflation due to low-cost entries, high inventory levels and pressure from e-commerce players; reduction in traditional advertising dollars, increasing household debt levels that could limit consumer appetite for discretionary purchases, declining consumer acceptance of new product introductions, and geopolitical uncertainty that could affect consumer sentiment. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market. Risks associated with the **Information Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

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.

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. CAR 0920-04356