WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment January 27, 2021

Scott Wren
Senior Global Market Strategist

Last Week's S&P 500 Index: +1.9%

Leaning further

Key takeaways

- We recently made adjustments to guidance and a number of targets that reflect our positive view of the global economy.
- We believe a further lean into risk assets is justified given our expectations over the balance of this year.

Over the course of the last 12 months we have slowly added more risk to portfolios and recommended that investors lean toward sectors and asset classes that reflect our belief that the U.S. and global recovery is set to continue in 2021. In fact, we just boosted our economic growth forecasts (gross domestic product, or GDP) for the U.S. as well as the globe as a whole. We continue to believe the emerging world, led by China's economy, will grow nearly 6% this year as global trade bounces back and South Korea and Taiwan continue to perform well.

Here at home, in the world's largest economy, we see growth of 4.7% after a contraction last year that will likely end up to be in the 3.5% to 4% range. Playing into our expectation for a meaningful bounce back from the pandemic-induced contraction of last year are factors we have discussed in the past and we believe will continue to be the drivers this year. Positive vaccine news, easy money policies being pursued by the Federal Reserve, and additional anticipated government stimulus have all helped the stock market, commodities, and high yield fixed income regain footing. Stock prices reached or hovered very near new record highs in recent weeks. Our year-end target for the S&P 500 Index represents a total return in the 8% to 10% range this year from levels at the time of this writing.

Better news in the emerging economies, as mentioned, has prompted us to move funds into this particular asset class at the expense of our exposure to developed international economies, represented by countries such as Japan and regions such as the eurozone, which we currently rate as most unfavorable. On a relative basis, growth in the developed international asset class appears to be well below the U.S. and the bulk of the largest emerging-market economies.

An improving global economy has also typically translated into increased demand for commodities. As a result, we continue to favor crude oil and commodities in general. We are projecting a modestly lower dollar relative to current levels as we work through this year. Since virtually all of the major commodities used as raw materials in the manufacturing and energy segments of the economy are priced globally in dollars, a lower dollar implies falling prices for these inputs for non-dollar-based economies.

Our recent adjustments to guidance and price targets takes our positive outlook one step further at the portfolio level. A further lean into risk assets is justified, in our opinion, based on how we believe the balance of the year will play out for the global economy.

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

© 2021 Wells Fargo Investment Institute. All rights reserved.

Risk Considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

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. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility.

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 0121-03428

© 2021 Wells Fargo Investment Institute. All rights reserved.