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Investment Institute

Market Commentary

Weekly perspective on current market sentiment — February 10, 2021

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Last Week's S&P 500 Index: +4.7%

Either way, it's a big number

Key takeaways

- The markets are anticipating a large amount of stimulus being pumped into the economy.
- We believe our current positioning syncs well with this push to accelerate growth and increase consumer spending.

The news headlines have been crowded with speculation over how large any potential stimulus package might be that will be able to pass through Congress. Based on party leaders' statements, it appears we will have to wait until March before something is on the president's desk awaiting a signature.

While President Biden has proposed a $1.9 trillion package, we at Wells Fargo Investment Institute have been in the camp that expects a final compromise number somewhere in the $1-$1.3 trillion range when all is said and done. It is being reported that some of the more moderate Democrats consider a $1.9 trillion package to be "excessive" or at least disagree with some of the items in the original proposal.

We will see what shakes out in the coming weeks, but there appears to be a push by many Democrats to pass legislation with the support of only one party. Given that Democrats control the White House, House of Representatives, and, with the vice president's tie-breaking vote, the Senate, it appears that strategy might be possible if votes fall along party lines.

We do believe additional stimulus is needed to help the economy and consumers bridge the gap between now and when vaccines are more widely administered and lockdowns are lifted so our lives can get back to some semblance of normality (whatever that may be going forward).

We want to remind our readers that the amount of stimulus the president eventually signs off on will almost certainly be substantial. Even the compromise package we have been looking for represents just over 5% of annual U.S. gross domestic product (GDP) while the president's proposal would equate to nearly 9% of GDP. This level of economic support syncs well with our belief that the economic recovery is set to continue, and we recommend adding risk to portfolios in equities, commodities, and high-yield fixed income. We expect these asset classes and segment should benefit from our outlook for accelerated economic growth this year.

In particular, equity sectors such as Industrials, Technology, Materials, Consumer Discretionary, and Financials have historically performed better as U.S. and global growth lifted. Large-cap, small-cap, and emerging market equity asset classes remain our top picks. In addition, we continue to favor the high-yield segment of fixed income and believe interest rates and inflation will be only modestly higher at year-end. Commodities, largely represented by oil and other raw inputs to the production process, also are favored as growth rebounds. The upcoming stimulus should help boost all of these markets.

So try to get your heads around the concept that we are likely going to get a major amount of stimulus. The financial markets have been anticipating this high probability. Will it be the president's proposal or a lesser amount? Either way, it's a big number that should help carry the recovery forward.

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