WELLS FARGO
Investment Institute

Weekly perspective on current market sentiment | March 10, 2021

Scott Wren
Senior Global Market Strategist

Last Week's S&P 500 Index: +0.8%

Economic foundations

Key takeaways

- Our expectations for economic growth in the U.S. and much of the world have increased.
- Higher growth rates translate into better earnings for corporations and modestly higher interest rates and inflation projections.

You may have noticed last week that we meaningfully increased our projected rate of growth for the U.S. economy (gross domestic product or GDP) this year from 4.7% to 5.7%. We also adjusted higher the growth rates for emerging market and developed international economies. Let's face it, in the U.S. the economy has performed better than we initially expected, vaccine distribution moved along quicker, and the size of the stimulus package produced and passed by Congress that will likely be dropped on the president's desk for his signature is larger than we thought it might be just a month or two ago. The bottom line is, based on what we know now and expect in the future, our prior growth rate estimates were too low.

Let's put this in the proper perspective and attempt to sync these economic changes up with some of the other asset-class guidance and target adjustments we announced. As we have pointed out many times in the past, the U.S. economy is driven by consumer spending. In fact, nearly 70% of domestic growth comes from consumers opening their wallets and paying for goods and services. In order for this magnitude of economic support to occur, we need confident consumers with jobs and money to spend on discretionary goods and services.

According to the U.S. Bureau of Labor Statistics (BLS), the domestic economy lost 22 million jobs in the February 2020 through April 2020 time period. Based on last week's February employment report, the BLS puts the number of currently unemployed people at 10 million, still high but well below the April 2020 peak. The leisure, hospitality, and retail segments of the labor market suffered greatly and have been slower to rebound as virus-related lockdowns kept many restaurants, bars, and retail establishments closed or operating under reduced capacity regulations. As the vaccines are more widely distributed and lockdowns continue to ease, we expect the labor market to continue to improve as we move through the year. We see the unemployment rate down to 5.5% by year-end versus 3.5% in February of last year (a 50-year low).

So we see better economic growth with only modestly higher inflation in most of the developed and emerging global economies and improving labor trends here at home. That bodes well for consumer spending and the overall level of world trade volumes. These factors also translate into higher earnings, not only for domestic U.S.-based companies but also for many companies making up the major indexes we track to gauge the performance of developed international and emerging market companies. Our latest earnings adjustments reflect these improved expectations. In addition, we believe higher growth rates should allow for modestly higher interest rates and inflation as demand picks up for everything from labor to raw materials to refined and finished goods, and we have adjusted those projections accordingly.

Our improved economic expectations form the foundation on which we base other projections in asset classes such as equities and fixed income and real assets like commodities and real estate.

Risks 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. **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. 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. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Definitions

An index is unmanaged and not available for direct investment.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

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 0321-01505