WELLS FARGO Investment Institute

Weekly perspective on current market sentiment — August 4, 2021

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: -0.4%

Not this time

Key takeaways

- While media reports covering the Delta variant of COVID-19 are alarming some, the financial markets seem largely unconcerned at this point.
- We believe this coronavirus variant will not lead to meaningful headwinds for the economy.

Is there some concern on the "Street" that U.S. growth is going to fall short of current expectations? It appears that there is. But is the shortfall going to be large enough to deter the advance in the stock market? And to what degree are these market concerns about growth focused on the possibility that Delta variant headwinds are going to lead to a reinstatement of lockdowns that are a far bigger step than some states recently bringing back masking requirements for indoor activities such as dining at restaurants? Spending by confident, employed consumers is what drives the domestic economy, and that likely will continue to be the case looking ahead. We need consumers out and about spending money, not sitting at home with nowhere to go and/or worried about the coronavirus.

But based on the fact that the major equity indexes are near all-time record highs, one can make a rational argument that right now investors are not all that worried about the Delta variant's potential for rattling the economy nearly as much as the initial COVID-19 surge of 2020 and early this year. In addition, indicators that we view as good gauges of the reopening process such as OpenTable dining reservations data and the Apple Mobility Index are holding their own despite the media's around-the-clock coverage of the caseload increase of the Delta variant.

While many are seeking more clarity and consistency in terms of safety guidance (i.e., should we wear masks?) from governmental entities such as the Centers for Disease Control and Prevention (CDC), the facts on the ground suggest that the Delta variant will not likely disrupt the economy as the initial coronavirus outbreak did. There are a number of factors at play here. For one, just over 50% of the U.S. population has now been fully vaccinated and many more have already had and fully recovered from the coronavirus, giving them some magnitude of resistance to the new variant according to the Cleveland Clinic. The Mayo Clinic's research is showing the Pfizer and Moderna vaccines are 96% effective at preventing severe disease caused by the Delta variant. Johnson and Johnson's in-house research is showing its vaccine to be 85% effective at preventing severe disease with the Delta variant. The data show hospitalizations and deaths to be rising at a far smaller rate as a result.

All of this supports our thesis that the U.S. economy will continue to feature an improving labor environment and strong growth as we look out through year-end 2022. Our research suggests the strongest earnings growth over that time frame is likely to occur in favored cyclical sectors such as Industrials, Materials, Energy, and Financials. And with interest rates expected to rise, we continue to favor stocks over bonds.

The bottom line is we do not expect the Delta variant to create meaningful headwinds for the economy as was the case in the early stages of the COVID-19 pandemic. Not this time.

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. **Sector investing** can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

Definitions

Apple Mobility Index measures the number of requests made to Apple Maps for directions in select countries/regions, sub-regions, and cities. Data that is sent from users' devices to the Maps service is associated with random, rotating identifiers so Apple doesn't have a profile of your movements and searches. The availability of data in a particular country/region, sub-region, or city is based on a number of factors, including minimum thresholds for direction requests per day.

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 0821-00291