Market Commentary

Weekly perspective on current market sentiment **September 1, 2021**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +1.5%

Growth tweaks

Key takeaways

- While we expect growth to remain strong, the rise of the delta variant and supply-chain disruptions are creating some headwinds for growth.
- As a result, we lowered our gross domestic product (GDP) growth expectations for the U.S. and global economies.

The current rise in the delta variant, as was the case with previous stages of the pandemic, has made predicting the economy, and many other market variables, more difficult than has been the case in most past cycles. Instead of a gradual slowdown in economic growth, the pandemic led to a sudden lockdown of economic activity. We have slowly climbed out of the hole over the last 15 months, and our work suggests the sun will continue to shine on the economic recovery at least through next year.

Massive monetary and fiscal stimulus have also played a big role in the speed of the recovery. This has been the case on a global basis as every major central bank on the planet has implemented monetary policies intended to pump stimulus into their economies. We expect the U.S. economy to lead the world economic recovery in the near term but look for some catchup from other major economies and regions as we move into and through 2022.

Consumer demand remains strong, but global supply-chain disruptions have led to shortages of many raw materials, parts, and finished goods. In addition, labor shortages here at home have been a headwind for the services segment of the domestic economy. These supply-chain disruptions have not allowed companies to build inventories, which has also slowed growth. The rise in the delta variant has also created speedbumps for the global recovery, but we do not believe it will lead to the same level of lockdowns as was the case last year. All of these factors have combined to moderate our outlook for growth over the balance of the year.

While we expect economic growth to remain well above average this year and next, our expectations for 7% growth this year now appears too optimistic. As a result, our gross domestic product (GDP) growth estimate has been lowered to 6.3%, still strong by historical standards. We are retaining our 5.3% growth estimate for 2022 as we expect supply-chain disruptions to ease and the global economy to be more synchronized. We see global GDP growth coming in at 5.6% versus our 6.3% initial estimate but still expect 5.1% growth next year. The global aspect of this recovery is highlighted by the fact that nearly 40% of the revenues for the S&P 500 Index come from outside the U.S. We see the U.S. recovery shifting from short and explosive to a more persistent and slower phase that will carry us through the end of next year at least.

Overall, we see a more sustainable recovery that is built on consumer spending and inventory rebuilding taking hold in coming quarters and carrying the economy forward through 2022.

Risks Considerations

Forecasts are not guaranteed and 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.

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 0821-04334