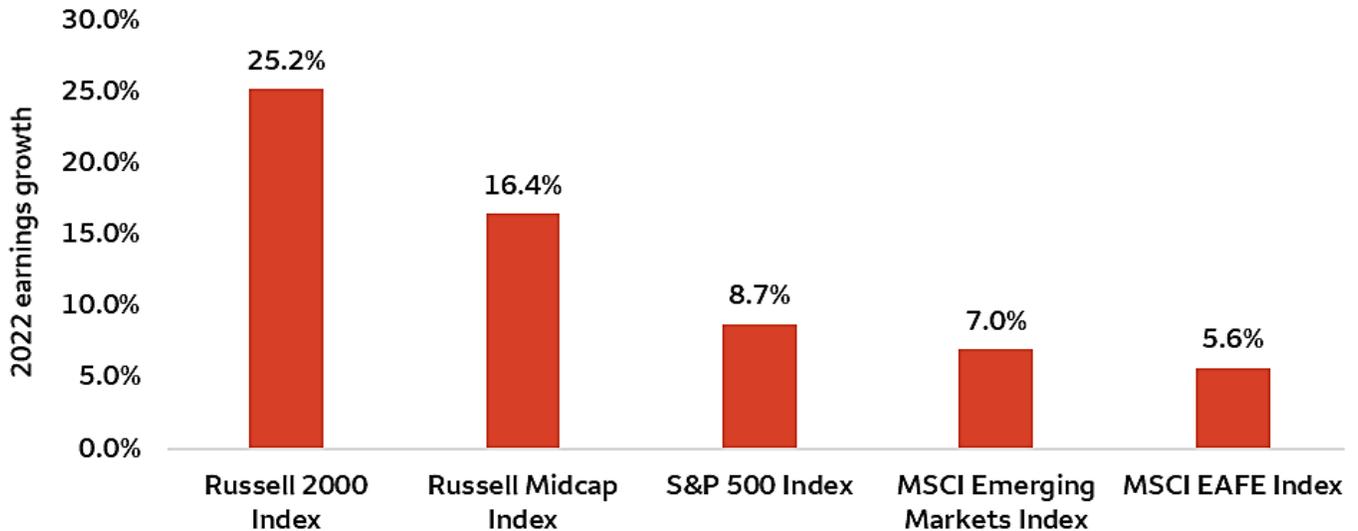


Our view on stocks: Seek quality and tilt U.S.



Sources: Wells Fargo Investment Institute, Bloomberg, September 8, 2021. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

Bloomberg consensus earnings growth estimates for 2022

On September 21, we downgraded Emerging Market Equities from favorable to neutral and upgraded U.S. Large Cap Equities from favorable to most favorable. Chinese earnings growth – and growth for emerging markets broadly – looks set to slow further, in our view.

The Bloomberg forecast consensus puts 2022 Chinese economic growth expectations at 5.6%, below the pre-pandemic pace. The importance of China for investors is that its equities account for over one-third of the MSCI Emerging Markets Index. The chart shows that 2022 Bloomberg consensus earnings growth expectations trail our targets for all three U.S. equity asset classes.

What it may mean for investors

In upgrading U.S. Large Caps to most favorable, we emphasize our view that this is the highest quality equities asset class, with stronger firm balance sheets and more consistent earnings power. This change underscores our preference for U.S. stocks over international.

We believe Emerging Markets should still participate in the global equity bull market, but this asset class seems unlikely to lead over the tactical time horizon of the next 6 to 18 months.

Global Investment Strategy Team

This chart was excerpted from the *Institute Alert*, “Updating guidance and allocations” dated September 21, 2021

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

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.

Definitions

MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

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Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

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.

An index is unmanaged and not available for direct investment.

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