

January 2022 recap

U.S. stocks retreated in January as the Federal Reserve's (Fed) pivot away from pandemic-era monetary stimulus sparked valuation concerns and a turbulent start to 2022. High-growth shares were particularly pressured, with the Nasdaq Composite sliding 9% for its biggest monthly drawdown since March 2020. The tech-heavy index settled in correction territory (defined as a 10% decline from a recent all-time high). The broader S&P 500 notched a new record on January 3 before shedding 5.3% in January, also its largest monthly drop since the pandemic began and its worst start to a year since 2009. The small-cap Russell 2000 slumped 9.7% after briefly dipping into bear market territory (defined as a 20% drop from a recent peak). The Dow Jones Industrial Average (Dow) outperformed on a relative basis, with the blue chip index's 3.3% loss its largest pullback since November 2021. A measure of bearish sentiment climbed to its highest level in nearly nine years, while the CBOE Volatility Index (VIX) hit its most elevated point since October 2020 as Wall Street struggled to determine the exact path of monetary policy tightening and its potential impact on equity performance. Sharp swings in stocks characterized the final week of the month, with the Dow recouping all of a more than 1,000-point intraday loss for the first time in history.

Central bank news took center stage. The Fed's December meeting minutes skewed more *hawkish* than anticipated, revealing policymakers contemplated a rate hike "sooner or at a faster pace" than originally projected as their priority shifted to combating persistent inflation. This pivot away from ultra-accommodative policy was the clear focus of the Fed's January meeting, as officials signaled that the first interest rate hike since 2018 would likely come in March. However, the exact timing and size of rate increases remained uncertain, with Fed Chair Jerome Powell saying committee members needed to stay "nimble" and that the economy could withstand the adjustment to monetary policy. Furthermore, the groundwork had been laid for "significantly reducing" the central bank's nearly \$9 trillion balance sheet sometime after *liftoff*. The updates sparked a rout in Treasuries. The 10-year Treasury note yield eclipsed 1.90% for the first time since December 2019 before settling the month 27 basis points (0.27%) higher at 1.78%. The more Fed-sensitive two-year note yield spiked 45 basis points (0.45%) to 1.18%—a 23-month peak—as traders priced in a total of nearly five 25-basis point (0.25%) rate hikes in all of 2022, up from just three in December.

On the data front, lingering inflation was underscored by a report showing the Consumer Price Index (CPI) jumped 7% year-over-year in December, the fastest pace since June 1982. Additionally, the Labor Department's job report reinforced the idea of a tight labor market, with the unemployment rate falling to a fresh pandemic low of 3.9%. Meanwhile, an advance reading of fourth-quarter U.S. gross domestic product (GDP) showed the economy expanded at a 6.9% annualized pace, capping the strongest year-over-year growth rate since 1984. Still, regional Fed gauges pointed to some slowdown in business activity in January, while the Institute for Supply Management's (ISM) release revealed that the U.S. manufacturing sector expanded at its slowest pace in nearly a year in December.

Meanwhile, lackluster corporate earnings failed to buoy sentiment. Softer beat rates, generally disappointing reports from some of Wall Street's largest financial institutions, and downbeat guidance from chipmakers contributed to underwhelming read-throughs. **Netflix, Inc.** (NFLX \$427.14) tumbled more than 29% after its current-quarter subscriber growth outlook fell well below consensus forecasts. **Apple, Inc.** (AAPL \$174.78) offered a bright spot, however, after the iPhone maker surpassed consensus profit and revenue expectations, delivering record sales during the holiday quarter despite ongoing supply chain issues. With roughly 32% of S&P 500 constituents having reported fourth-quarter results through January, earnings were on track to climb by nearly 26% year-over-year, according to Bloomberg, still poised for the fourth straight period of profit growth above 20%. In the merger and acquisition (M&A) space, **Activision Blizzard, Inc.** (ATVI \$79.01) surged 18.8% after **Microsoft Corp.**

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(MSFT \$310.98) announced it would acquire the video game maker in a \$68.7 billion all-cash deal, while online game maker **Zynga Inc.** (ZNGA \$9.07) agreed to be purchased by **Take-Two Interactive Software Inc.** (TTWO \$163.34).

Energy was the sole S&P 500 sector to finish in positive territory as oil prices hit seven-year highs. West Texas Intermediate crude notched its best month since February 2021 (+17.5%) as geopolitical tensions between Russia and Ukraine exacerbated tight supply conditions. Meanwhile, gold prices fell the most since September, weighed down by a stronger U.S. dollar and expectations for tighter monetary policy.

Price and Total Returns

U.S. markets

| Index | Close | January Price Return (%) | January Total Return (%) | December Total Return (%) | 2021 Total Return (%)* |
|------------------------------|----------|--------------------------|--------------------------|---------------------------|------------------------|
| S&P 500 | 4515.55 | -5.26 | -5.17 | 4.47 | 28.68 |
| Dow Jones Industrial Average | 35131.86 | -3.32 | -3.24 | 5.53 | 20.95 |
| Nasdaq Composite | 14239.88 | -8.98 | -8.96 | 0.75 | 22.21 |
| S&P 400 Mid Cap | 2635.38 | -7.27 | -7.21 | 5.07 | 24.73 |
| S&P 600 Small Cap | 1299.23 | -7.31 | -7.27 | 4.51 | 26.74 |

U.S. sector performance

| Index | Close | January Price Return (%) | January Total Return (%) | December Total Return (%) | 2021 Total Return (%)* |
|-------------------------|---------|--------------------------|--------------------------|---------------------------|------------------------|
| Communications Services | 250.41 | -6.38 | -6.21 | 2.53 | 21.57 |
| Consumer Discretionary | 1454.45 | -9.70 | -9.68 | -0.25 | 24.43 |
| Consumer Staples | 792.38 | -1.52 | -1.37 | 10.29 | 18.63 |
| Energy | 502.93 | 18.97 | 19.10 | 3.05 | 54.35 |
| Financials | 649.52 | -0.08 | 0.06 | 3.28 | 34.87 |
| Health Care | 1530.46 | -6.90 | -6.76 | 8.98 | 26.13 |
| Industrials | 852.34 | -4.76 | -4.73 | 5.32 | 21.10 |
| Information Technology | 2843.88 | -6.92 | -6.89 | 3.38 | 34.52 |
| Materials | 530.58 | -6.86 | -6.85 | 7.57 | 27.28 |
| Real Estate | 297.02 | -8.54 | -8.50 | 10.23 | 46.14 |
| Utilities | 351.67 | -3.31 | -3.27 | 9.64 | 17.67 |

International markets

| Index | Close | January Price Return (%) | January Total Return (%) | December Total Return (%) | 2021 Total Return (%)* |
|----------------------|-----------|--------------------------|--------------------------|---------------------------|------------------------|
| U.K. FTSE 100 | 7464.37 | 1.08 | 1.12 | 4.75 | 18.40 |
| Germany DAX | 15471.20 | -2.60 | -2.60 | 5.20 | 15.79 |
| France CAC 40 | 6999.20 | -2.15 | -2.04 | 6.47 | 31.88 |
| Spain IBEX 35 | 8612.80 | -1.16 | -0.77 | 5.21 | 10.52 |
| Italy FTSE MIB | 26814.05 | -1.95 | -1.55 | 5.95 | 26.81 |
| Greece ATHEX | 936.77 | 4.86 | 5.02 | 3.01 | 12.44 |
| MSCI Emerging Market | 1208.23 | -1.93 | -1.90 | 1.89 | -2.40 |
| Shanghai Composite | 3361.44 | -7.65 | -7.65 | 2.13 | 7.05 |
| Japan Nikkei 225 | 27001.98 | -6.22 | -6.21 | 3.60 | 6.62 |
| Hong Kong Hang Seng | 23802.26 | 1.73 | 1.73 | -0.31 | -11.84 |
| Brazil Bovespa | 112143.50 | 6.98 | 6.98 | 2.85 | -11.93 |
| Russia Micex | 3530.38 | -6.78 | -6.29 | -1.67 | 21.88 |
| India Sensex | 58014.17 | -0.41 | -0.38 | 2.11 | 23.23 |

Treasuries

| Maturity | January Ask Yields | December Historical Yields | November Historical Yields | October Historical Yields | September Historical Yields |
|----------|--------------------|----------------------------|----------------------------|---------------------------|-----------------------------|
| 2-Year | 1.18 | 0.73 | 0.57 | 0.50 | 0.28 |
| 5-Year | 1.61 | 1.26 | 1.16 | 1.18 | 0.96 |
| 10-Year | 1.78 | 1.51 | 1.44 | 1.55 | 1.49 |
| 30-Year | 2.11 | 1.90 | 1.79 | 1.93 | 2.04 |

Municipal bonds

| Maturity | Close | January Price Return (%) | December Price Return (%) | November Price Return (%) | 2021 Price Return (%)* |
|----------------------------------|--------|--------------------------|---------------------------|---------------------------|------------------------|
| S&P Municipal Bond Index | 273.26 | -2.39 | 0.14 | 0.74 | 1.77 |
| S&P Muni Bond Long Intermediate | 283.67 | -2.70 | 0.14 | 0.70 | 1.26 |
| S&P Muni Bond Intermediate | 268.78 | -2.57 | 0.12 | 0.59 | 1.09 |
| S&P Muni Bond Short | 178.80 | -1.06 | 0.01 | 0.04 | 0.41 |
| S&P Muni Bond Investment Grade | 268.57 | -2.37 | 0.13 | 0.69 | 1.39 |
| S&P Muni Bond High Yield | 350.60 | -2.60 | 0.33 | 1.29 | 6.82 |
| S&P Muni Bond General Obligation | 261.26 | -2.45 | 0.12 | 0.70 | 1.03 |
| S&P Municipal Bond Index | 273.26 | -2.39 | 0.14 | 0.74 | 1.77 |

Commodities

| Front Month Futures | Close | January Price Return (%) | December Price Return (%) | November Price Return (%) | 2021 Price Return (%)* |
|---------------------|----------|--------------------------|---------------------------|---------------------------|------------------------|
| CRB Index | 255.12 | 9.79 | 6.02 | -7.79 | 38.48 |
| Oil/bbl | 88.15 | 17.21 | 13.64 | -20.81 | 55.01 |
| Natural Gas | 4.87 | 30.67 | -18.33 | -15.83 | 46.91 |
| Gold | 1795.00 | -1.84 | 3.10 | -0.58 | -3.51 |
| Silver | 22.39 | -4.11 | 2.58 | -4.94 | -11.59 |
| Copper | 432.45 | -3.11 | 4.34 | -2.06 | 26.84 |
| Nickel | 22788.00 | 9.17 | 4.33 | 2.46 | 26.00 |

Foreign exchange

| Currency | Close | January Price Return (%) | December Price Return (%) | November Price Return (%) | 2021 Price Return (%)* |
|-----------------|--------|--------------------------|---------------------------|---------------------------|------------------------|
| Dollar Index | 96.54 | 0.91 | -0.34 | 1.99 | 6.37 |
| Euro/USD | 1.12 | -1.19 | 0.28 | -1.90 | -6.93 |
| USD/Yen | 115.11 | 0.03 | 1.69 | -0.68 | 11.46 |
| GBPound/USD | 1.34 | -0.63 | 1.75 | -2.80 | -1.01 |
| USD/CAD | 1.27 | 0.56 | -1.11 | 3.16 | -0.69 |
| USD/Krona | 9.32 | 2.97 | 0.34 | 5.02 | 10.05 |
| USD/Swiss Franc | 0.93 | 1.57 | -0.65 | 0.31 | 3.13 |

Source: Bloomberg. *All prices as of the close January 31, 2022. An index is unmanaged and not available for direct investment. Yields represent past performance and fluctuate with market conditions. Current yields may be higher or lower than those quoted above. **Past performance is no guarantee of future results.**

Disclaimers

Pricing as of market close on January 31, 2022, unless indicated otherwise.

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Additional information available upon request.

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