WELLS FARGO
Investment Institute

EXECUTIVE SUMMARY

2024 Outlook

2024 targets as of December 5, 2023

A pivotal year for the economy and markets

Economy and exchange rates

We foresee a deepening U.S. economic slowdown in early 2024. Cascading contractions in housing and some manufacturing activity, tightening credit conditions, and weakening overseas economies have undermined economic resilience in the U.S. Strike activity, the resumption of student loan payments, and sticky services inflation are aggravating the U.S. slowdown.

As these factors continue to undermine consumer spending, we expect lower inflation. We expect 12-month increases in the Consumer Price Index (CPI) to fall to 2.5% in December 2024 from 3.6% at the end of 2023. As inflation approaches the Federal Reserve's (Fed's) 2% target, we expect that policymakers will cut short-term interest rates. Lower interest rates and households with new spending power should prompt spending, inventory rebuilding, and an economic recovery, at least into year-end 2024, and probably beyond.

Our bias remains for modest dollar upside in the first half of 2024, supported by a flight to quality during the global economic slowdown. We also expect the U.S. dollar to find support while U.S. interest rates exceed those in the eurozone and Japan. A global economic pivot to recovery later in 2024 should rekindle risk appetite and bring a slightly weaker dollar.

Average percent change in the latest four quarters from the same year-ago period, unless otherwise noted

	2023 latest*	2024 target
U.S. GDP growth	1.9% (Q3)	0.7%
U.S. inflation[1]	3.2% (Oct.)	2.5% (Dec.)
U.S. unemployment rate[2]	3.8% (Oct.)	5.6% (Dec.)
Global GDP growth[3]	3.1% (Q3)	2.3%
ICE U.S. Dollar Index[4]	103	99–103

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest economic data as of November 30, 2023. Targets for 2024 are based on forecasts by Wells Fargo Investment Institute as of December 5, 2023. Q3 = third quarter. GDP = gross domestic product.
1. Latest month percent change from a year ago. 2. Three-month average as of the date indicated, percent of labor force. 3. Global GDP and inflation are GDP-weighted averages for developed and emerging economies. 4. The ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, composed of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc. A higher index value indicates dollar appreciation. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

Fixed income

We believe the Fed will pivot away from tightening monetary policy and will most likely remain on pause in 2024's early months, but we expect modest policy rate cuts as the U.S. economy slows further.

We expect a decline in yields during the early part of the year, followed by a climb in the latter months. We see an opportunity for many defensive asset classes to produce positive returns in 2024's first half and look to add to higher-risk sectors.

The global environment remains challenging for international fixed income, and we favor U.S. short- and long-term investment-grade fixed income. Corporate issuers enter 2024 with strong credit metrics and largely supportive outlooks from the major rating agencies. Among high-yield issuers, we value due diligence that emphasizes quality. Many double-B (BB) rated companies may manage a downturn without substantial credit risk. We remain favorable on U.S. Treasuries and municipals, for investors in higher effective tax brackets. Among municipals, we prefer A-rated or higher general-obligation bonds.

	2023 latest*	2024 year-end target
Federal funds rate	5.25%–5.50%	4.75%–5.00%
10-year U.S. Treasury yield	4.33%	4.75%–5.25%
30-year U.S. Treasury yield	4.50%	5.00%–5.50%

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest market data as of November 30, 2023. Targets for 2024 are based on forecasts by Wells Fargo Investment Institute as of December 5, 2023. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

Equities

We retain a strong bias for large U.S. companies for 2024. Sticky wage and input costs early in the year should give way to an incipient earnings recovery later in the year, even as earnings may not recapture their 2022 peak until early 2025. We expect rising prices and valuations as the economic slowdown approaches its bottom. However, as earnings begin to rise late in 2024, we anticipate that price/earnings (P/E) valuations will begin to decline.

The lack of market breadth amid the worsening economic slowdown suggests that equity rallies by narrow groups of stocks may be prone to sharp pullbacks and trading in ranges. Before the pivot to recovery, we suggest a patient and diligent focus on quality in equity markets. Specifically, we are favorable on U.S. large-cap equities, neutral on U.S. mid caps, and most unfavorable on U.S. small caps.

Despite a slowing economy into 2024, our favored sectors highlight a quality focus, that is, attractive long-term fundamentals at reasonable valuations. Solid underlying long-term demand from an aging population and technological advances underscore our preference for Health Care. Meanwhile, we believe the multi-year buildout of U.S. infrastructure to accommodate the green energy transition and the return of some manufacturing from China should continue to support Industrials and Materials. Moreover, we see attractive valuations on all three sectors.

	2023 latest*	2024 year-end target
S&P 500 Index	4,567	4,600–4,800
Earnings per share	$221	$220
Russell Midcap Index	2,894	2,900–3,100
Russell 2000 Index (small cap)	1,809	1,800–2,000
MSCI EAFE Index	2,123	2,000–2,200
MSCI Emerging Markets Index	983	900–1,100

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest market data as of November 30, 2023 and latest 2023 EPS figures reflect Bloomberg consensus estimates. Targets for 2024 are based on forecasts by Wells Fargo Investment Institute as of December 5, 2023. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

Real assets

A long-term commodity price uptrend, which we believe dates from 2020, has pushed many commodity prices to decade highs. We remain favorable on commodities but expect gains will slow in 2024 as the economic slowdown deepens. We believe real estate investment trusts (REITs) will continue to struggle with higher interest rates, and so we remain unfavorable. We believe large, well-capitalized, broadly diverse midstream energy companies — both master limited partnerships (MLPs) and C-corporations — may fare better than some of their energy peers.

In our view, muted global oil supply growth will likely offset weaker global demand and support current prices.

We believe gold could add to its positive price momentum in 2024 as its recent headwinds appear poised to reverse and become tailwinds.

	2023 latest*	2024 year-end target
West Texas Intermediate crude (barrel)	$75	$85–$95
Brent crude (barrel)	$82	$90–$100
Gold (troy ounce)	$2,036	$2,100–$2,200
Bloomberg Commodity Index (total return)	232	235–255

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest market data as of November 30, 2023. Targets for 2024 are based on forecasts by Wells Fargo Investment Institute as of December 5, 2023. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

Alternative investments

We prefer allocations to defensive hedge-fund and private-capital strategies as the U.S. economy slows further. As we anticipate an eventual return to economic growth, we may look to more directional strategies, such as Equity Hedge and the Structured Credit/Asset-Backed strategy within Relative Value. Our current favored strategies and sub-strategies are more defensive and historically have not moved in tandem with stock and bond markets. We will look to add risk as the downturn evolves and investors anticipate a recovery.

Alternative investments are not appropriate for all investors and are only open to "accredited investors" or "qualified investors" within the meaning of the U.S. securities laws. They are speculative, highly illiquid, and designed for long-term investment and not as trading vehicles.

Risk considerations

Forecasts and targets are based on certain assumptions and on our current views of market and economic conditions, which are subject to change.

All investing involve risks, including the possible loss of principal. 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. Their values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Foreign markets have additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Mid- and small-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large-company stocks. **Bonds** are subject to interest rate, credit/default, liquidity, call, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. Investors should consider the stability of the issuing entity when investing in sovereign debt. **Municipal bonds** offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income. The **commodities** markets, including investments in physical commodities such as gold, 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. Other risks associated with investing in listed **REITs** include the use of leverage, unexpected reductions in common dividends, increases in property taxes, and the impact to listed REITs from new property development. **Alternative investments**, such as hedge funds and private capital/private debt and private real estate strategies, are speculative and not appropriate for all investors. These investments are only available to persons who are "accredited investors" or "qualified purchasers" within the meaning of U.S. securities laws. Investors could lose all or a substantial amount investing in these products. Alternative investment strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks.

Definitions

Bloomberg Commodity Index is comprised of 23 exchange-traded futures on physical commodities weighted to account for economic significance and market liquidity.

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

MSCI EAFE Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

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

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 Index.

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.

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 capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation, and financial companies.

An index is unmanaged and not available for direct investment.

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