

Looking Ahead

December 16, 2022

Hopes for a *dovish* central bank pivot in the near future were dashed this week despite signs of easing inflation and slowing economic growth. Investors were initially optimistic as the latest Consumer Price Index (CPI) data came in softer than expected. However, their enthusiasm was short-lived as a wave of monetary policy decisions left market participants feeling dissatisfied. While the Federal Reserve (Fed) and other global central banks downshifted the pace of interest rate hikes, *hawkish* takeaways dominated the narrative as many officials emphasized the need to maintain restrictive policy for a longer period than previously forecasted. From there, recession jitters only grew more intense, sparking a sharp sell-off that sent equities into negative territory for the week.

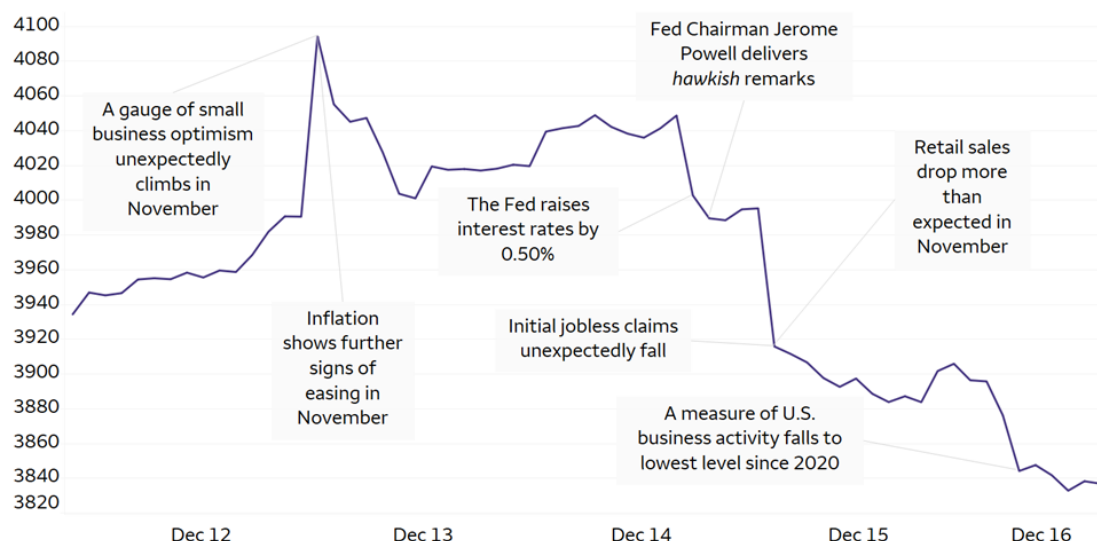


Anne Lipsett
Wealth and Investment Management
Program Analyst



Stephanie Campbell
Business Growth Strategy Consultant

S&P 500 performance for the week of December 12-16



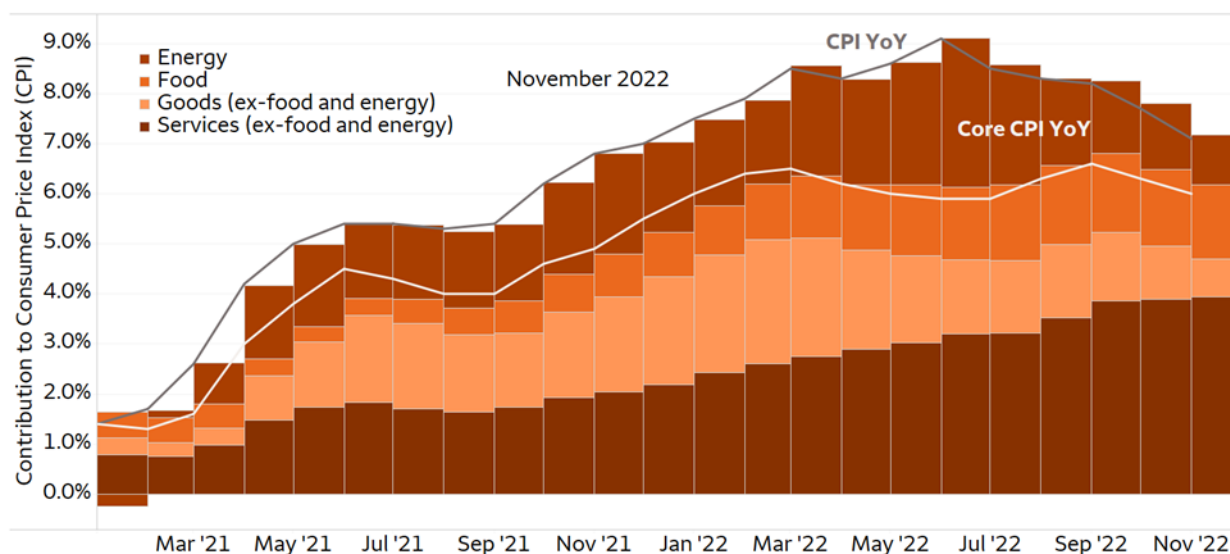
Source: Bloomberg. As of December 16, 2022 12:30 p.m. ET. Past performance is no guarantee of future results. An index is unmanaged and not available for direct investment.

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Heading into Monday's session, Wall Street was looking to rebound from the prior week's slump which saw U.S. stocks notch their worst week since September as worries about a looming recession returned to the spotlight. Meanwhile, oil prices weathered their steepest five-day decline since August as demand concerns dominated trading. The downturn came despite a shutdown of the Keystone pipeline following an oil spill and potential retaliation from Russia regarding the Western price caps on oil. One bright spot for the week had been the University of Michigan's survey of consumer sentiment, which showed one-year inflation expectations eased to the lowest level since September 2021.

As markets reopened on Monday, investors were cautiously optimistic ahead of key macroeconomic events that included the last update on consumer prices and final Fed policy decision of 2022. On Tuesday, Wall Street cheered November's CPI print, which surprised to the downside. Headline CPI climbed 7.1% year-over-year versus expectations of a 7.3% annual gain. Notably, core CPI, which excludes the more volatile food and energy costs, saw its smallest monthly advance in over a year. The report cited shelter costs as the largest contributor to inflation, offsetting declines in energy prices. Meanwhile, used cars and trucks were a negative contributor to annual inflation growth for the first time in over two years. The softening print provided further evidence that inflation likely peaked in June, and investors hoped it would comfort the Fed as they looked to slow the pace of interest rate hikes. Immediately following the release, equities soared and Treasuries rallied, but both pared gains later in the day as the focus shifted to the Federal Open Market Committee (FOMC) meeting.

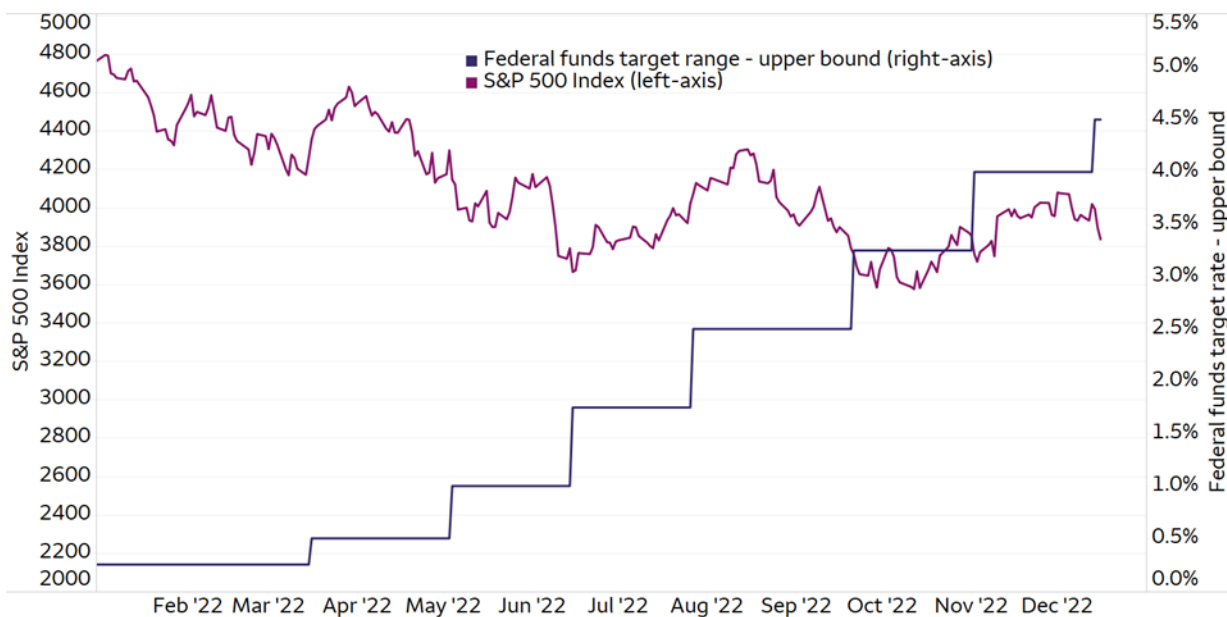
Inflation eases further in November but still stubbornly high



Source: Bloomberg as of December 13, 2022 8:30 a.m. ET.

On Wednesday, the Fed unanimously voted to raise its benchmark rate by 50 basis points (0.50%), as widely anticipated—marking a downshift from the last four 75 basis-point (0.75%) hikes. This wrapped up a year in which the U.S. central bank implemented its most aggressive tightening campaign in 40 years to combat the highest inflation since the same period. In 2022, the federal funds rate has been lifted seven times, totaling 425 basis points (4.25%) after being slashed to zero in March 2020. Immediately following Wednesday's announcement, Fed Chairman Jerome Powell reiterated a commitment to bringing inflation back down to the committee's 2% target, signaling there was still more work to be done. Notably, the "dot plot" indicated policymakers expect the terminal rate (the peak federal funds rate for the cycle) to reach 5.10%, well above the 4.60% level forecasted in September. Following Wednesday's announcement, stocks finished lower after a volatile day of trading with the Dow down 142 points, while the Nasdaq Composite fell 0.8% and the S&P 500 declined 0.6%.

S&P 500 performance vs. Fed Rate Hiking Cycle



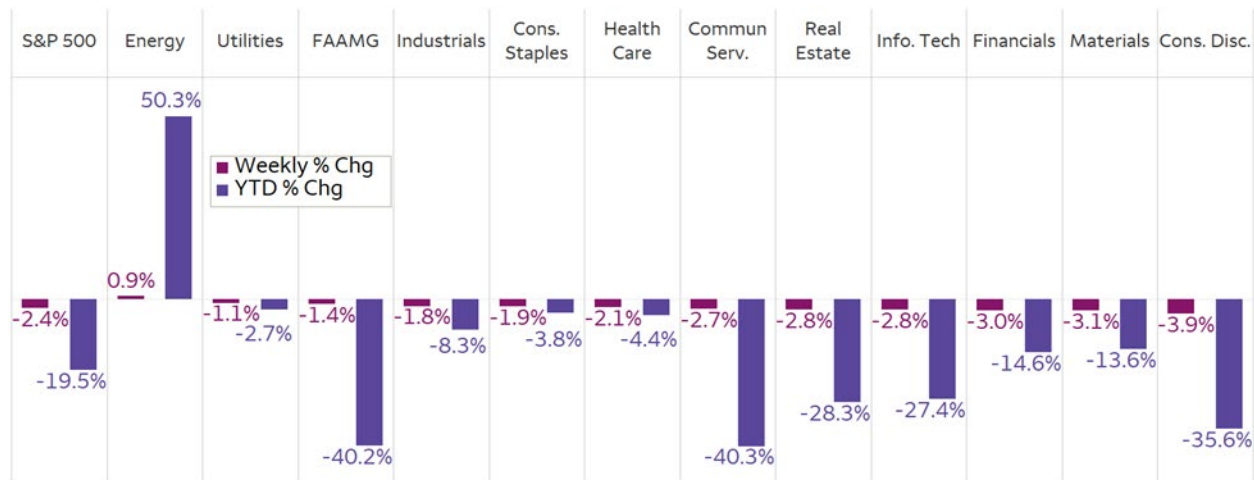
Source: Bloomberg as of December 16, 2022 12:30 p.m. ET. Past performance is no guarantee of future results. An index is unmanaged and not available for direct investment.

Across the pond, the European Central Bank (ECB) and the Bank of England (BOE) followed the Fed and raised interest rates by 50 basis points (0.50%) each on Thursday. In their post-meeting press conference, ECB President Christine Lagarde said investors should expect the central bank to continue to raise rates for the foreseeable future to aid in lowering inflation. Following a similar pattern, BOE Governor Andrew Bailey stated the central bank remains committed to bringing inflation down to their 2% target. Bailey also indicated his belief that U.K. inflation has peaked, and the country is already in a recession. Across the board, central bank leaders repeated that the downshift in rate hikes should not be taken as a pivot in policy, as they planned to continue raising rates and keep them higher for longer.

In other domestic data, retail sales dropped by the most in almost a year in November, suggesting consumer demand is abating. Economists noted that pandemic-era savings and rising wages have buoyed purchasing power, but shoppers are beginning to feel the squeeze of high inflation. Initial jobless claims unexpectedly dropped in the latest week, highlighting the still-tight labor market referenced in Powell's post-meeting remarks. Elsewhere, preliminary readings from S&P Global showed both U.S. manufacturing and services sector activity fell deeper into contractionary territory in December. The composite purchasing managers' index (PMI) print dropped to 44.6, contracting for a sixth consecutive month and hitting the lowest level seen since mid-2020.

By Friday, volatility was exacerbated by the quarterly triple-witching event (during which equity derivatives expire) that also coincided with the rebalancing of benchmark indexes—including the S&P 500. As of 12:30 p.m. ET, the S&P 500 and Nasdaq Composite were headed for their second weekly declines (-2.4% and -3%, respectively), while the Dow was positioned to lose 2.2%. Meanwhile, oil prices declined 1.9% mid-day Friday but continue to be on track for a positive week amid boosts in the 2023 demand forecasts from the Organization of Petroleum Exporting Countries (OPEC) and the International Energy Agency.

S&P 500 sector performance with FAAMG*



Source: Bloomberg. As of December 16, 2022 12:30 p.m. ET. *FAAMG represented by an equal weight portfolio of Meta Platforms Inc. (formerly known as Facebook), Amazon.com Inc., Apple Inc., Microsoft Corp., and Alphabet Inc.. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

Looking Ahead to Next Week: December 19-23

Next week, all eyes will be on updates on the real estate market, including housing starts, building permits, and new home sales. All three are expected to show continued deterioration in the housing market, though the pace of decline is expected to ease from the prior month. A gauge of homebuilder sentiment is anticipated to stabilize, though it remains near its lowest level since 2020. Also highlighting the docket is Personal Consumption Expenditures (PCE) data—the Fed’s preferred gauge of inflation. November’s core PCE deflator is expected to reflect a 4.7% annual increase, easing slightly from the previous 5% year-over-year gain. A final reading of third-quarter Gross Domestic Product (GDP) will likely show the U.S. economy expanded at a 2.9% annualized pace, recouping the contraction suffered during the first half of the year. Internationally, China’s central bank is set to unveil its short-term and long-term loan prime rate, and the Bank of Japan holds its policy meeting. Investors can expect inflation updates from the U.K., Germany, Japan, and France throughout the week. In earnings news, some notable companies reporting profit tallies include General Mills Inc, FedEx Corp, and NIKE Inc.

Disclaimers

Ticker	Price	Ticker	Price	Ticker	Price
META	\$116.15	AAPL	\$136.50	AMZN	\$88.45
MSFT	\$249.01	GOOGL	\$90.86	GOOG	\$91.20
GIS	\$86.95	FDX	\$173.17	NKE	\$108.51

Source: Bloomberg. As of December 15, 2022, 4:00 p.m. ET

Different investments offer different levels of potential return and market risk. Investing in **stocks** involves risk, and their returns and risk levels can vary depending on prevailing market and economic conditions. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation, and other risks. Prices tend to be inversely affected by changes in interest rates. Although **Treasuries** are considered free from credit risk, they are subject to interest rate risk, which may cause the underlying value of the security to fluctuate, and deflation risk, which may cause the principal to decline and the securities to underperform traditional Treasury securities.

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Definitions

An index is unmanaged and not available for direct investment.

The 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.

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

Scheduled economic releases for week of December 19, 2022

Monday, December 19

Time	Country	Release	For	Consensus	Prior
10:00 AM	U.S.	NAHB Housing Market Index	December	34	33
8:15 PM	China	1-Year Loan Prime Rate	December 20	3.65%	3.65%
8:15 PM	China	5-Year Loan Prime Rate	December 20	4.30%	4.30%

Tuesday, December 20

Time	Country	Release	For	Consensus	Prior
12:00 AM	Japan	BOJ Policy Balance Rate	December 20		-0.10%
12:00 AM	Japan	BOJ 10-Yr Yield Target	December 20		0
2:00 AM	Germany	PPI MoM	November		-4.20%
8:30 AM	U.S.	Building Permits MoM	November	-0.80%	-2.40%
8:30 AM	U.S.	Housing Starts MoM	November	-1.80%	-4.20%

Wednesday, December 21

Time	Country	Release	For	Consensus	Prior
10:00 AM	U.S.	Existing Home Sales MoM	November	-5.20%	-5.90%
10:00 AM	U.S.	Conf. Board Consumer Confidence	December	100.8	100.2

Thursday, December 22

Time	Country	Release	For	Consensus	Prior
2:00 AM	U.K.	GDP QoQ	Quarter Three Final		-0.20%
8:30 AM	U.S.	Chicago Fed Nat Activity Index	November		-5.00%
8:30 AM	U.S.	GDP Annualized QoQ	Quarter Three Third	2.90%	2.90%
8:30 AM	U.S.	Personal Consumption	Quarter Three Third		1.70%
8:30 AM	U.S.	Core PCE QoQ	Quarter Three Third		4.60%
6:30 PM	Japan	Natl CPI YoY	November		0.037

Friday, December 23

Time	Country	Release	For	Consensus	Prior
2:45 AM	France	PPI MoM	November		-0.10%
8:30 AM	U.S.	Personal Income	November	0.20%	0.70%
8:30 AM	U.S.	Personal Spending	November	0.20%	0.80%
8:30 AM	U.S.	Durable Goods Orders	November Prelim	-0.50%	1.10%
8:30 AM	U.S.	PCE Deflator MoM	November	0.30%	0.30%
8:30 AM	U.S.	PCE Deflator YoY	November		6.00%
8:30 AM	U.S.	PCE Core Deflator MoM	November	0.30%	0.20%
8:30 AM	U.S.	PCE Core Deflator YoY	November	4.70%	5.00%
10:00 AM	U.S.	U. of Mich. Sentiment	December Final	59.1	59.1
10:00 AM	U.S.	U. of Mich. 1 Yr Inflation	December Final		4.60%
10:00 AM	U.S.	U. of Mich. 5-10 Yr Inflation	December Final		3.00%
10:00 AM	U.S.	New Home Sales MoM	November	-5.10%	7.50%

Source: Bloomberg. Data as of December 14, 2022

Scheduled earnings releases for week of December 19, 2022

Monday, December 19

Company	Symbol	EPS Est.	Year Ago	Revenue Est. (\$MM)
No Earnings Releases of Note				

Tuesday, December 20 – Before the Open

Company	Symbol	EPS Est.	Year Ago	Revenue Est. (\$MM)
FactSet Research Systems Inc	FDS	\$3.63	\$3.25	\$509.23
General Mills Inc	GIS	\$1.06	\$0.99	\$5,182.93

Tuesday, December 20 – After Market Close

Company	Symbol	EPS Est.	Year Ago	Revenue Est. (\$MM)
AAR Corp	AIR	\$0.68	\$0.53	\$461.75
Calavo Growers Inc	CVGW	\$0.33	-\$0.08	\$298.00
FedEx Corp	FDX	\$2.81	\$4.83	\$23,689.26
NIKE Inc	NKE	\$0.66	\$0.83	\$12,565.03
Worthington Industries Inc	WOR	\$0.62	\$4.27	\$1,095.50

Wednesday, December 21 – Before the Open

Company	Symbol	EPS Est.	Year Ago	Revenue Est. (\$MM)
Carnival Corp	CCL	-\$0.88	-\$1.72	\$3,934.00
Cintas Corp	CTAS	\$3.03	\$2.76	\$2,124.79
Toro Co/The	TTC	\$1.09	\$0.56	\$1,175.50

Wednesday, December 21 – After Market Close

Company	Symbol	EPS Est.	Year Ago	Revenue Est. (\$MM)
Micron Technology Inc	MU	\$0.00	\$2.08	\$4,144.00
MillerKnoll Inc	MLKN	\$0.41	-\$0.05	\$1,046.00

Thursday, December 22 – Before the Open

Company	Symbol	EPS Est.	Year Ago	Revenue Est. (\$MM)
Apogee Enterprises Inc	APOG	\$0.97	\$0.63	\$362.00
CarMax Inc	KMX	\$0.66	\$1.63	\$7,266.21
Apogee Enterprises Inc	APOG	\$0.97	\$0.63	\$362.00

Thursday, December 22 – After Market Close

Company	Symbol	EPS Est.	Year Ago	Revenue Est. (\$MM)
No Earnings Releases of Note				

Friday, December 23

Company	Symbol	EPS Est.	Year Ago	Revenue Est. (\$MM)
No Earnings Releases of Note				

Source: Bloomberg. As of December 14, 2022

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