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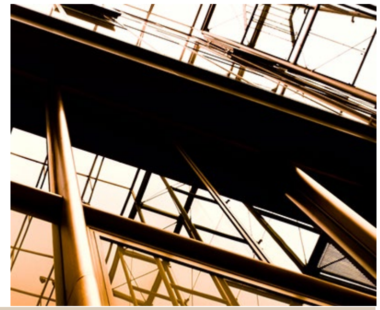
Investment Institute

Chart of the Week



Weekly market analysis on key market indexes — January 3, 2024

Positioning amid market optimism

Sector	S&P 500 Index weight (%)*	WFII guidance over tactical horizon (6 – 18 months)**	Year-to-date returns (%)
Information Technology	29.1	Neutral	52.0
Communication Services	8.6	Neutral	48.7
Consumer Discretionary	10.7	Unfavorable	34.2
Industrials	8.3	Favorable	10.4
Materials	2.4	Favorable	7.6
Financials	12.9	Neutral	6.4
Real Estate	2.4	Unfavorable	3.4
Energy	4.1	Neutral	-1.3
Consumer Staples	6.3	Neutral	-2.1
Health Care	12.7	Favorable	-2.2
Utilities	2.4	Neutral	-8.8

Sources: S&P 500 Index weight and total returns: Bloomberg, as of November 30, 2023. Guidance: Wells Fargo Investment Institute (WFII), as of December 15, 2023. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** *Sector weightings may not add to 100% due to rounding. **To reposition allocations for consistency with our guidance, add two percentage points of exposure to market weight for favorables, subtract two for unfavorables, and hold market weight for neutrals.

The S&P 500 Index has surged, three sectors have outperformed

Market participants appear to be hanging their hats on strong earnings growth, lower inflation, and aggressive Federal Reserve rate cuts in 2024 — the S&P 500 Index has surged slightly more than 15% since the late-October lows, and it is trading at an optimistic 21.5x our $220 earnings forecast for 2024. However, the Information Technology, Communication Services, and Consumer Discretionary sectors are the only sectors that have outperformed the S&P 500 Index on a year-to-date basis as of December 20, and their magnitude of outperformance has been dramatic. It is likely that many investors are now overweight these sectors relative to their representation in the S&P 500 Index.

What it may mean for investors

We prefer to trim positions on all three aforementioned sectors — Information Technology, Communication Services, and Consumer Discretionary — to bring them back in line with our ratings (neutral, neutral, and unfavorable, respectively). With the proceeds from taking these actions, we favor investing in our favorable-rated Health Care, Industrials, and Materials sectors. These high-quality sectors have not kept pace with the S&P 500 Index in this narrow equity rally, but in our view they offer attractive relative performance potential between now and the end of 2024.

Should excess funds be left over after taking the favored equity sector actions, we continue to favor short-term fixed income as a good place to "park" funds with the intention of putting that money back to work in stocks as anticipated opportunities arise amid slowdowns in the economy and earnings.

Scott Wren, *Senior Global Market Strategist*

Excerpted from the Market Commentary dated December 20, 2023

Risk Considerations

Forecasts and targets are 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** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Sector investing** can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. **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.

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