WELLS FARGO
Investment Institute

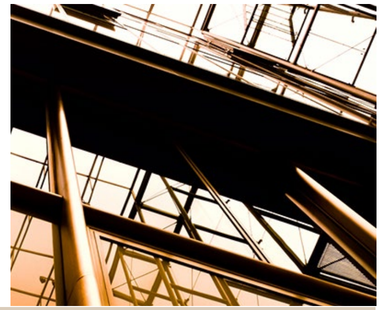
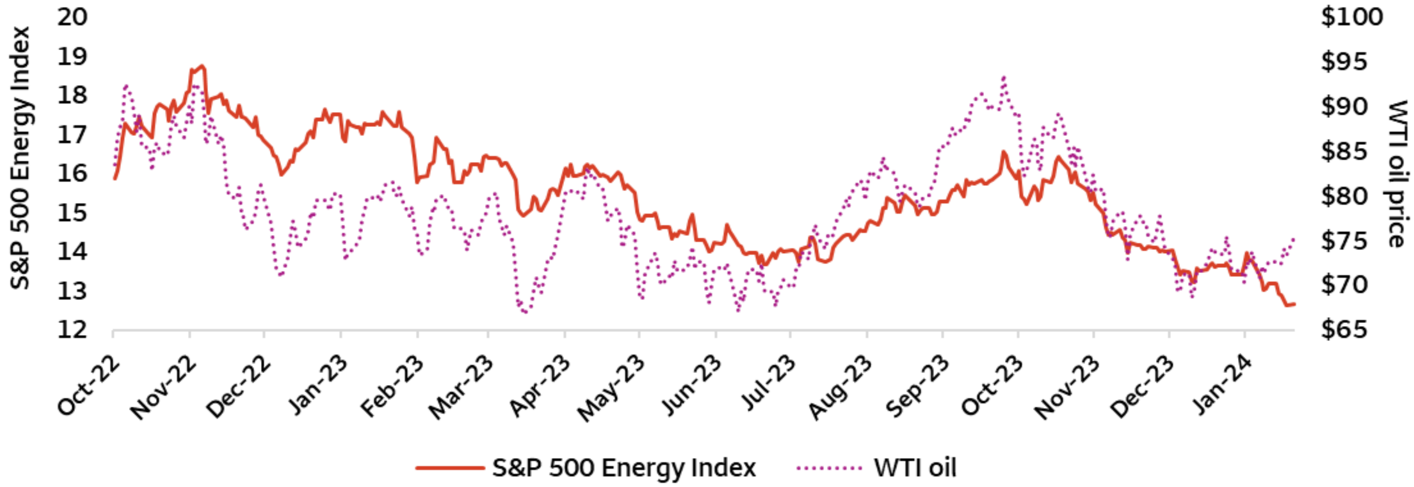


Chart of the Week

Weekly market analysis on key market indexes **February 6, 2024**

Revisiting our opportunistic shift in equity guidance



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data: October 3, 2022 – January 22, 2024. WTI = West Texas Intermediate. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Plenty of room for oil to move higher and Energy to outperform

On January 9, we implemented equity sector guidance changes that arose from what we saw as a relative opportunity between two sectors: the Energy sector, which we upgraded to favorable, and the Financials sector, which we downgraded to unfavorable. The Financials sector has been a top performer over the past two months, but we believe prices have run too far ahead. The sector will likely feel the brunt of the economic slowdown as spending weakens and deal and payment activities slow. Earnings growth expectations are poor, valuations remain uncompelling, and the sector screens poorly on common quality characteristics. In our view, these headwinds plus a heightened regulatory environment suggest Financials may struggle.

Meanwhile, we see potential for Energy sector outperformance, particularly given our expectation for oil prices to end the year higher (see chart). Energy sector valuations are near historically cheap levels, both in absolute terms and relative to the S&P 500 Index; global oil supply growth is likely to remain muted; and U.S. producers have shown a commitment to capital discipline and a preference for increasing shareholder returns over maximizing production.

What it may mean for investors

We favor reallocating to the Energy sector from the Financials sector amid attractive valuations as well as our expectation that oil prices will bottom with the global economy and then finish the year higher. Within Energy, we are favorable on the Integrated Oil and Midstream Energy sub-sectors. As late-cycle dynamics appear in play, we remain defensively positioned and continue to prefer high-quality assets.

Austin Pickle, CFA; *Investment Strategy Analyst*

Excerpted from *Investment Strategy* (January 29) and *Institute Alert* (January 9)

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**, 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. The **commodities** markets 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.

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.

Definitions

S&P 500 Index is a market-capitalization-weighted index considered representative of the U.S. stock market. An index is unmanaged and not available for direct investment.

S&P 500 Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

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