WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment **June 1, 2023**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +0.3%

Getting paid to wait

Key takeaways

- Currently, the purchase of short-term Treasury bills in the three-to-12-month maturity range offers yields in excess of 5%.
- Our theme is "getting paid to wait." That largely translates into taking advantage of high short-term rates to temporarily invest in fixed income while waiting for eventual reinvestment into equity markets.

If you haven't noticed, the S&P 500 Index's (SPX) most recent foray into the 4,180 – 4,200 area is the sixth time since early February of this year that the market has tested this resistance range. Our advice continues to be "don't chase this rally" as we think the upside is likely limited from here. Putting it another way, the risk versus reward in equities is not attractive at current levels based on our analysis. Our expectations have been that the SPX would spend most of its time in the 3,700 – 4,200 range in 2023. We have been asking for investors to be patient and have favored a more defensive stance since March of last year. Interest rates have traded higher (bond prices lower), and our last portfolio adjustments in April favored investing in short-term fixed income while reducing exposure to equities.

Based on our 2024 year-end target range mid-point of 4,700 for the SPX, we would argue that this major equity index over the next six to nine months might offer a positive return in the 5% range. Also, as of the time of this writing, the purchase of short-term Treasury bills in the three-to-12-month maturity range offers yields in excess of 5%. Specifically, the current yields on three-month, six-month, and one-year Treasury bills are 5.15%, 5.44%, and 5.25%, respectively, according to Bloomberg data. And these Treasury bills, unlike the value of the SPX, are backed by the full faith and credit of the U.S. government if held until maturity. Take into consideration that most of the investing world would regard U.S.-government-backed securities to be one of the safest financial instruments on the planet in terms of the repayment of principal and the payment of interest earned. So, we would expect a low risk return in Treasuries versus a riskier potential return in the SPX over a similar time frame.

We believe better buying opportunities in equities will be available over the coming six to 12 months. We expect downside in stocks for some stretch of that time frame as the Federal Reserve keeps the fed funds target rate higher for longer, credit conditions tighten further, earnings slow more than the consensus currently expects, and inflation only slowly falls as we approach year-end. For now, we are seeking to preserve capital by using short-term fixed income along with our overall defensive posture. We also continue to believe that long-term fixed income offers an attractive entry point for investors with a longer investment horizon.

Our theme here is "getting paid to wait." That largely translates into taking advantage of the highest short-term rates we have seen in a long time to temporarily invest in fixed income while waiting for eventual reinvestment in the equity market at a potentially lower valuation.

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

© 2023 Wells Fargo Investment Institute. All rights reserved.

Risk considerations

Forecasts are not guaranteed and 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. **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. **U.S. government securities** are backed by the full faith and credit of the federal government as to payment of principal and interest. Unlike U.S. government securities, agency securities carry the implicit guarantee of the U.S. government but are not direct obligations. Payment of principal and interest is solely the obligation of the issuer. If sold prior to maturity, both types of debt securities are subject to market risk. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

Definitions

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.

An index is unmanaged and not available for direct investment.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. CAR-0523-04892

© 2023 Wells Fargo Investment Institute. All rights reserved.