June 2019

2019 Midyear Equity Sector Outlook

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Overview

A number of themes have affected sector performance year-to-date, including U.S.-China trade negotiation uncertainty, shifting interest rate expectations, and even the beginning of 2020 election rhetoric regarding health care reform issues. The appearance that trade talks with China had been progressing favorably and the reversal of U.S. Federal Reserve policy spurred enthusiasm in the market, with the S&P 500 Index increasing by 18% through the end of April 2019. Since, we have seen some market-deflating themes, primarily related to the resurfacing of uncertainty in regards to the U.S.-China trade negotiations but also mixed overall economic reports.

Looking at the balance of the year, we anticipate a continued evolution of both positive and negative market-driving forces. We believe that more supportive global fiscal and monetary policy, a still-solid U.S. consumer backdrop, and stability in certain areas of business investment could be somewhat offset by elevated inventories, trade uncertainty, and concerns surrounding duration of the cycle. Given that we are witnessing signs of a maturing industrial cycle, we are increasingly attracted to sub-industries with longer end market cycles and sub-industries with the potential to benefit from specific strategies that are driving margin and capital return improvement.

We believe the Financial Sector now faces a more mixed environment as the Federal Open Market Committee (FOMC) has recently paused on further rate hikes. We also remain cautious regarding the potential deterioration in underwriting quality emerging in parts of corporate credit.

Although consumer credit trends have been strong, they should be watched closely as well as we move further into 2019 and away from the jolt in 2018 as consumers benefited from the passage of the Tax Cuts and Jobs Act. We anticipate more headwinds as we move into the year in the Consumer Discretionary Sector; we are adopting a more defensive posture within the sector, focusing on the low-end retailers as the preferred area to invest throughout the balance of 2019.

We believe that as the last half of the year unfolds and additional uncertainty is introduced into the market with U.S.-China trade uncertainties and global growth concerns, we may see renewed interest in the traditionally more defensive sectors. As such, the Consumer Staples, Utilities, and Real Estate sectors may see some interest—as investors could search for higher yields and lower volatility.

2019 Equity Sector Weighting Guidance

		Global Industry Classification Standard (GICS) Industry Guidance	
	Sector	**More Favorable**	**Less Favorable**
Most Favorable	Industrials	Defense contractors; Long-Cycle Multi-Industrials	Machinery; Trading Companies and Distributors; Transports excluding Railroads
	Information Technology	Information Technology (IT) Services; Software; Communications Equipment	Semiconductor Equipment
Favorable	Consumer Discretionary	Off-Price Retail; Discount Stores; Internet Retail	Department Stores; Automobiles; Household Durables
	Energy	Integrated Oil Cos; Well Capitalized Exploration and Production (E&P) Cos; Well Capitalized Master Limited Partnerships (MLPs)	Coal; E&Ps with High Leverage; MLPs with Low Distribution Coverage or High Leverage; Offshore Drillers; Royalty Trusts
	Financials	Diversified Banks; Property & Casualty (P&C) Insurance	Mortgage real estate investment trusts (REITs); Business Development Co's (BDCs); Credit Cards; Regional Banks
Neutral	Consumer Staples	Beverages; Beauty and Personal Care; Tobacco	Packaged Food
	Healthcare	Medical Devices/Equipment	Generic Pharma; Health Care Facilities
Unfavorable	Communication Services	Integrated Telecom; Interactive Media & Services; Entertainment	—
	Materials	Specialty Chemicals; Industrial Gases	Metals and Mining
	Real Estate	Cell Tower ; Industrial REITs; REITs with Longer-Lease Terms (Triple Net Lease and Health Care REITs)	Shorter-Lease term REITs(Manufactured Housing and Self-Storage)
Most Unfavorable	Utilities	Electric; Multi	—

Source: Sub-Industry recommendations by Wells Fargo Advisors. Sector recommendations by Wells Fargo Investment Institute. As of 6/4/2019.

COMMUNICATION SERVICES

2019 MIDYEAR PERFORMANCE

The newly minted S&P 500 Communication Services sector (Communication Services sector) jumped out of the gate with a strong start to 2019, notching an impressive +20% return through April 2019. The notable drag on sector performance came from the traditional telecom sub-industry which represents about one-fifth of the sector's weight and increased a paltry +4%. Each of the sector's other industries were up an impressive +25% or more.

SECTOR DRIVERS AND THEMES FOR 2019

Many company business models within the Communication Services sector are adapting to changes in consumer habits regarding how and where information and entertainment are consumed. The evolution has blurred the lines between traditional telecommunication services, cable, media, and internet-based firms. As the process unfolds, new business models may significantly disrupt the sector. The Telecommunication Services industry is generally highly competitive, leveraged, and sensitive to interest rate changes. Regulation (and potential regulation in some cases) is front of mind given recent high profile data breaches that have raised the ire of politicians and the public. Further, the implementation of the general data protection regulation (GDPR) in Europe could potentially limit the amount of data collected and reduce the value of the personal information. The new regulations could require significant investments to protect sensitive user data.

WHERE TO INVEST IN 2019

For investors with a preference for income, we favor the Telecommunication Services industry group with a bias toward the Integrated Telecommunication Services sub-industry. Companies within Telecommunication Services have historically offered attractive and generally stable dividend income. We believe growth oriented investors should focus on the Media & Entertainment industry group with a preference for the Interactive Media & Services and Entertainment industries which have historically grown earnings at a faster pace than the overall market.

We believe Integrated Carriers are appropriate as the cornerstone of an income investor's Communication Services exposure. In our view, Integrated Carriers generally offer attractive dividend income, diverse revenue sources and relatively stable total return profiles compared to other large cap equities. Integrated Carriers have evolved over time and we believe will continue to do so as they leverage their massive scale and extensive networks with owned content and advertising capabilities.

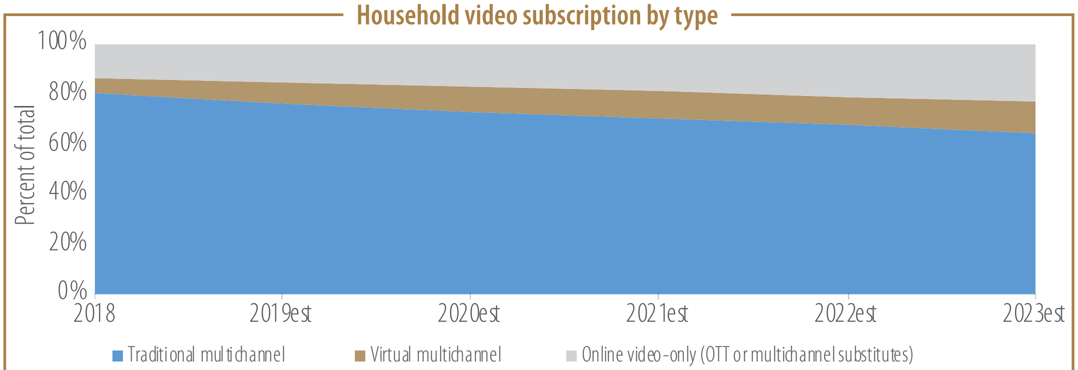
Generally, we remain favorable on the Interactive Media & Services industry, particularly the companies transitioning over from the Technology sector. These firms account for more than 45% of the overall Communication Services sector and are likely to remain market share leaders in the search and advertising end market.

We remain favorable on gaming companies within the Interactive Home Entertainment sub-industry as we expect these firms to continue to develop solid lineups of games across platforms. Gaming firms have transformed how users play their games, using digital downloads rather than physical discs. This allows publishers to easily add new content to a game simply through a download update. This has allowed gaming firms to extend the time users play a game, while adding the ability to advertise and create a marketplace for micro-transactions within the game environment.

POTENTIAL TAILWINDS AND HEADWINDS

The way people communicate and consume data is evolving which we believe could lead to disruption in incumbent business models. In Telecom, Media, and Cable, cord cutting is weighing on traditional TV services and therefore impacting how media firms approach consumers. We expect this trend to continue. As an offset, however, we believe stand-alone streaming services and broadband providers could be beneficiaries. Potential increased regulatory oversight remains an overhang for many companies in the sector as they tend to have, and seek to monetize, consumers' personal data.

Household video subscription by type



* Traditional multichannel includes cable, satellite, telco, and other multichannel platforms.

* Virtual multichannel characterized by unmanaged broadband delivery of aggregated live, linear networks, and on-demand content similar to a traditional multichannel offering for a monthly subscription.

* Online video-only households (formerly over the top or multichannel substitutes) are households that rely on unmanaged broadband delivery to view television shows or movies in lieu of a traditional or virtual multichannel subscription.

Video consumption is a topic that touches many aspects of the Communication Services sector—cable firms, broadband providers, content owners, and advertising platforms, to name a few. As shown in the chart, the traditional cable bundle is expected to continue shrinking while alternative distribution grows, thus changing how companies address consumers.

Source: Industry data; Kagan estimates; Wells Fargo Advisors/Kagan, a media research group within S&P Global Market Intelligence © 2019 S&P Global Market Intelligence. All rights reserved.

CONSUMER DISCRETIONARY

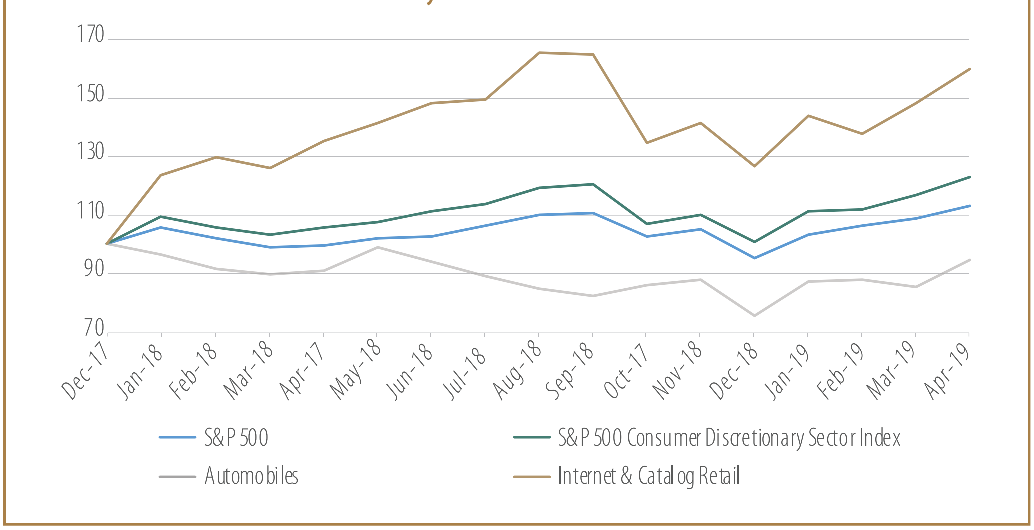
2019 MIDYEAR PERFORMANCE

The S&P Consumer Discretionary sector has outperformed the broader market year-to-date (as of April 2019) led by Internet & Direct Marketing Retail (e-commerce driven) and Automobiles (given the Federal Reserve's decision to dial back projections for further rate hikes in 2019). We believe the narrowness within the group exhibited over the last few years will continue as investors remain focused on companies with specific internal initiatives designed to drive outsized market share gains.

SECTOR DRIVERS AND THEMES FOR 2019

Consumer spending received a jolt in 2018 from the benefits of the Tax Cuts and Jobs Act passage. We witnessed another year of accelerating consumption expenditures as consumers enjoyed (and spent) their larger paychecks, while also benefiting from low-level borrowing costs. Thus far in 2019 and for the remainder of the year, we see more headwinds facing the consumer than at any other time over the past few years. Absent another fiscal stimulus program in 2019, we expect challenging sales comparisons, rising costs of living (energy, food), and higher cost of borrowing to all stack up to suggest a tougher consumer spending environment throughout the current calendar year. On the expense side, freight/transportation, wages, and tariffs should weigh heavily throughout the upcoming year.

Industry Performance vs. S&P 500



Over the past two years, the S&P Consumer Discretionary sector has outperformed the S&P 500 driven by the Internet & Catalog sub-industry, while the more structurally troubled (Multi-line Retail) and interest rate sensitive (Automotive) sub-industries have lagged.

Source: FactSet, Wells Fargo Advisors.
Data set: 12/31/2017 through 4/30/2019. Indexed to 100 as of 12/31/2017.

An index is not managed and not available for direct investment.

The S&P 500 Sector Indices measure the performance of the widely-used Global Industry Classification Standard (GICS®) sectors and sub-industries. Each index (Automobiles, Internet & Catalogue Retail, and Multiline Retail) comprises those companies included in the S&P 500 that are classified as members of their respective GICS® sectors. The S&P 500 is a market capitalization-weighted index generally considered representative of the U.S. stock market.

Past performance is no guarantee of future results.

WHERE TO INVEST IN 2019

Given the backdrop for our expectations for a more cautious consumer spending environment in 2019, we moved to a defensive-posture towards the Consumer Discretionary sector. As such, we see low-end retailers like discount stores, off-pricer and mass-merchants—as the preferred areas to invest throughout 2019. Absent an inflationary environment, the low-end consumer should benefit disproportionately from rising minimum wage rates occurring across a number of service-oriented companies. As the low-end consumers expand their wallets, the propensity to spend those higher wages increases the disposable income that will likely be redirected back into low-end retailers. In addition, as incremental headwinds gather steam in the face of middle-income consumers, the propensity to trade-down into discounters/off-pricers/mass-merchant channels increases. In addition to low-end retailers, we continue to remain positive on the Internet & Direct Marketing retail sub-industry given the ongoing shift of consumer preferences to online and away from traditional brick-and-mortar. We expect e-commerce/online shopping should continue to be one of the more disruptive forces within retailing that we have seen in thirty plus years. Because mobile devices are often the new desktop, consumers are increasingly able to comparison shop, identify, and purchase goods based purely on the lowest prices or added benefits such as free shipping and rewards incentives. As such, traditional retailers and weaker brands continue to face challenges from store traffic concerns and deflationary e-commerce pressures. As fewer trips are conducted to physical retail, less automobile traffic passes in front of restaurants and, as such, we believe the increased attraction to internet retail commerce indirectly impacts restaurant trends. Hence, we are more cautious on the restaurant industry, particularly full-service restaurants.

POTENTIAL TAILWINDS AND HEADWINDS

A strong job market generally provides consumers more financial comfort and increased disposable income. However, rising wages are a catch-22 for the Consumer Discretionary sector. On one hand, higher wages are positive tailwinds for consumer spending. However, sectors and industries with a high labor component (Restaurants, Hotels/Resorts/Cruises, and Retail) will likely receive less incremental benefit given the increased operating expense impact on profits. Additionally, rising logistics, gas prices, and interest rates coupled with potentially lower federal tax refunds are headwinds to consumer spending trends.

CONSUMER STAPLES

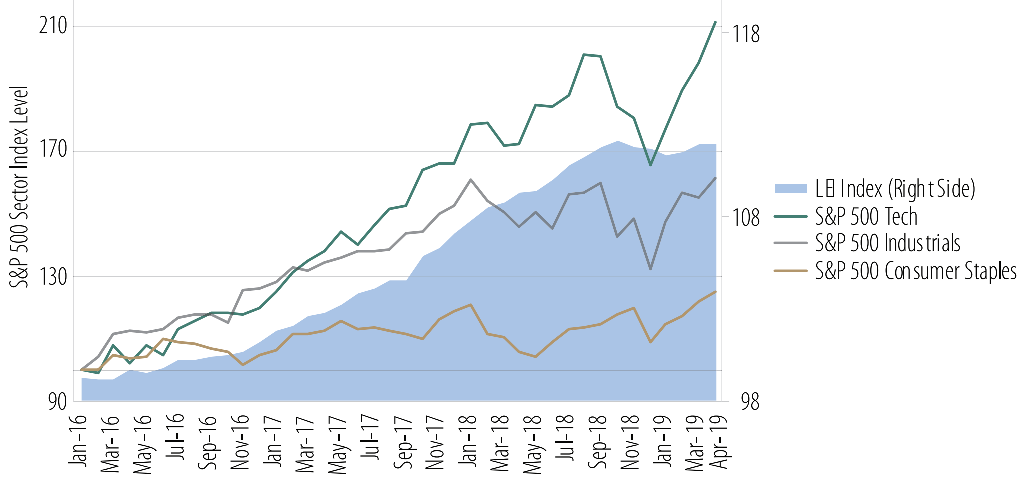
2019 MIDYEAR PERFORMANCE

Through April, the S&P 500 Consumer Staples sector underperformed versus the overall S&P 500. The first four months of 2019 was a tale of two periods for both the overall markets and the Consumer Staples sector. The year started off with a bang as offensive sectors like Industrials and Information Technology led the broader market materially higher and the more defensive Consumer Staples group trailed. Why? China trade tensions eased and the Federal Reserve backed off its rate tightening stance helping more offensive groups. But as the year progressed into March and April, global growth concerns rose and bond yields fell in rather dramatic fashion. Defensive sectors like Consumer Staples, Utilities and REITs led the way at that point as investors sought lower volatility and higher yield.

SECTOR DRIVERS AND THEMES FOR 2019

There are two factors likely to drive performance in the Consumer Staples sector: relative stability of the group and the potentially attractive total returns including the generous dividend yields these companies tend to offer. The sector historically offers relatively stable earnings growth opportunities across economic cycles and the high-return nature of these businesses deliver excess free cash flow after funding operations. Consumers are staples purchasers regardless of the state of the economy, making Consumer Staples minimally cyclical. Therefore, the stocks generally afford countercyclical relative price performance, providing rationale to own the sector for both absolute total return and diversification. High consumer confidence, higher minimum wage rates, and improving employment all bode well for sustainable consumer spending trends.

Sector Performance Relative to Leading Economic Indicators



The year started off with a bang as offensive sectors like Industrials and Information Technology led the broader market materially higher as these sectors are more highly correlated to a stronger economy.

Source: FactSet.

Indexed to 100 as of 1/29/2016. Data set through 4/30/2019. An index is not managed and not available for direct investment.

The S&P 500 Sector Indices measure the performance of the widely-used Global Industry Classification Standard (GICS®) sectors and sub-industries. Each index (Tech, Industrials and Consumer Staples) comprises those companies included in the S&P 500 that are classified as members of their respective GICS® sectors. The S&P 500 is a market capitalization-weighted index generally considered representative of the U.S. stock market.

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WHERE TO INVEST IN 2019

Broadly speaking, we remain selective in our views across the Consumer Staples sector. Our selective/cautious view is due to adequate valuations, sales growth that stems primarily from higher price and not volume, and finally, potential market share disruption from the likes of private label competition and e-commerce threats. The ongoing domestic economic recovery, rising wages, and low unemployment all argue for consumer spending growth and should help mildly offset our generally cautious view.

Sub-industries that we believe could fare well in the remainder of 2019 are those with stronger sales growth aided by pricing power and whose products could benefit from the ongoing consumer interest in overall health and wellness. We believe beverage companies could benefit given the emphasis in growing noncarbonated beverages (water, teas, sports drinks, and juices) that represent healthier choices over carbonated sodas. Household product companies, while maintaining higher valuations, are seeing relatively stronger sales growth too versus Consumer Staples peers, particularly those in the beauty and personal care categories. After a difficult 2018, tobacco stocks have staged a comeback of sorts but headline risk remains due to heightened Food and Drug Administration (FDA) focus on nicotine reduction and slowing growth of reduced risk products. Tobacco valuations trail the overall Staples group as a result and remain contrarian ideas. We remain cautious on packaged food stocks given their structural challenges as consumers seek healthier food options. Although some of the laggards in the group have moved up off their lows, P/E multiples in food remain relatively compressed. Compressed P/Es combined with relatively low interest rates and higher cash stockpiles on corporate balance sheets, could accelerate merger and acquisition potential in this subsector.

POTENTIAL TAILWINDS AND HEADWINDS

Potential tailwinds in the Consumer Staples sector include strength of the domestic economy and the steady cash flow generation that can be directed towards mergers and acquisitions (M&A), stock buybacks, and increased dividends. The perceived "flight to safety" trade could help this group if market volatility and trade tensions remain high. Potential headwinds could be rising interest rates causing additional dollar strength hurting multinationals. Other headwinds could include rising commodity costs, cost pressures in logistics, and labor and pricing compression from private label competition. Higher interest rates could make staples less valuable as bond proxies with their generally above average dividend yields.

ENERGY

2019 MIDYEAR PERFORMANCE

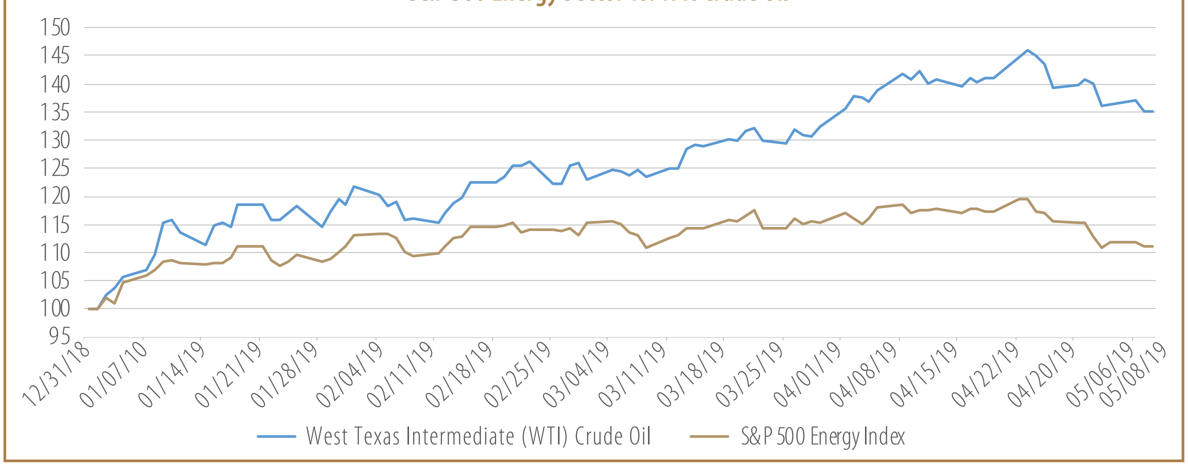
Despite a meaningful rebound in Energy commodity prices, the Energy sector has underperformed the S&P 500 year-to-date (as of April 2019). We view the underperformance as a reflection of investor sentiment, which remains highly skeptical given uncertainty around the path of commodity prices and a prolonged history of sector underperformance. This has led many companies to reconsider their business strategy and capital allocation decisions in an effort to become more resilient throughout commodity cycles.

SECTOR DRIVERS AND THEMES FOR 2019

Much of the feedback coming from Energy companies in 2019 has been focused around cash flow stability in a lower oil price environment, a strategy which should provide upside in the form of capital returns to shareholders if oil prices can sustain current levels throughout the year (as of April 30, 2019). We believe that most energy companies are in the early stages of a transition to a more disciplined business model, and would expect investor sentiment to gradually improve if the sustainability of cash flows and consistent returns can be proven over the coming quarters.

Midstream companies have proved the most resilient group within the sector, driven by their lower direct exposure to commodity prices and the need for additional infrastructure within the oil and gas industry.

S&P 500 Energy Sector vs. WTI Crude Oil



Upside to oil prices doesn't always translate to upside for energy stocks, as many other exogenous factors have weighed on sector performance year to date.

Source: FactSet, Wells Fargo Advisors. Data set from 12/31/2018 through 5/8/2019. Indexed to 100 as of 12/31/2018.

The S&P 500 Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Energy sector. An index is not managed and not available for direct investment.

Past performance is no guarantee of future results.

WHERE TO INVEST IN 2019

We continue to favor integrated oil companies, which tend to have the most sustainable cash flows, above average dividend yields, and well diversified businesses across a variety of end markets and geographies. As a commodity based industry, the sector is inherently volatile and diversification helps to lessen direct commodity price exposure and helps protect against idiosyncratic risks.

For more direct commodity price exposure, we maintain our positive outlook on well capitalized exploration and production names operating in low cost U.S. shale basins. Growing energy transportation demand is supportive of midstream fundamentals, where we are most favorable on companies that are driving growth by providing critical infrastructure needs and have a simplified corporate structure and adequate distribution coverage. Narrower crude oil discounts, weaker gasoline margins, and periods of heavy maintenance have been a headwind for the downstream energy industry so far in 2019, but we are seeing these trends begin to normalize and look ahead to the implementation of the IMO-2020 fuel standards which should also benefit the refiners.

POTENTIAL TAILWINDS AND HEADWINDS

Oil and gas pipeline capacity in the Permian continues to be constrained, presenting a challenge for E&Ps operating in the region and an opportunity for midstream companies. Although several new pipelines are in the works, none are expected to come online before late 2019. The upcoming International Maritime Organization (IMO) regulation will be implemented on January 1, 2020, and is expected to be a tailwind to refining and marketing margins later this year.

The major differentiating factor across our equity recommendations within Energy is quality. There remains a lot of disparity throughout the sector, and thus we are less favorable toward exploration and production names with high cost production, limited financial flexibility, and the need for ongoing gains in commodity prices to survive. We also remain less favorable toward the offshore drilling and oil tanker and marine Master Limited Partnership (MLP) sub-groups—given the higher volatility the group typically demonstrates in the event of an oil price downturn.

FINANCIALS

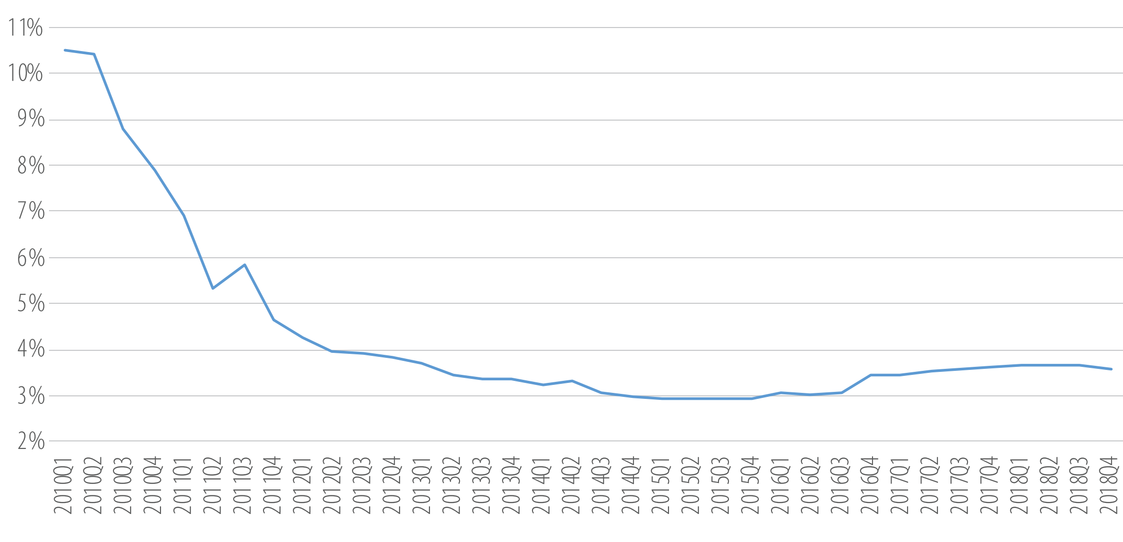
2019 MIDYEAR PERFORMANCE

Year to date through April 2019, the Financial sector of the S&P 500 returned +18.34%, ranking near the middle of the pack of the 11 economic sectors, and about in-line with the overall S&P 500 Index return of +18.24%. Investors understandably feel whipsawed, as enthusiasm for financials built following the announced merger of two southern regional banks, only to dissipate with the Federal Open Market Committee (FOMC) statement which reset market expectations on the trajectory of interest rates.

SECTOR DRIVERS AND THEMES FOR 2019

The FOMC pausing on future rate hikes has no doubt thrown cold water on the equity appeal of Financials. Financial companies have endured the burden of a flattening yield curve for some time, while some have also faced deceleration in loan demand. And while an upwardly sloping yield curve generally has its benefits for financial companies, it is not the whole story. Credit matters too. As such, we reiterate our preference for stronger underwriters, whether they be banks, insurance companies, or asset managers. More specifically, and by industry, we look most favorably upon the universal banks and select property and casualty (P&C) insurance companies.

Charge-off rate on credit card loans, all commercial banks
(Seasonally adjusted)



As food for thought on credit, observe the uptick in charge-offs for credit cards. While not back to the high levels following the financial crisis, the elevation in charge-offs is one trend worth monitoring.

Charge-offs are recorded when a debt is deemed uncollectable and written off of the lender's books. The charge-off rate is the amount of charge-offs divided by the average outstanding credit card balances owed to the issuer.

Source: Federal Reserve
Data through 12/31/2018.

WHERE TO INVEST IN 2019

We continue to think that investors should treat current market conditions as if they are the latter stages of a credit cycle, even if it has years more to run. We believe the preconditions of deterioration in underwriting quality are emerging in parts of corporate credit, and note that some observers of these markets are worried about the fallout when a distressed cycle hits. And while trends in the consumer side of credit have been solid, they should be watched closely too.

In reaffirming our positive view of select universal banks we appreciate those that view loan growth as an outcome of the credit process. While banks are generally considered pro-cyclical participants in market cycles, the major banks have looked to avoid the excessively risky terms and structures found in some areas of lending today, and are seemingly willing to cede some of that business to the non-bank lending community. Apart from universal banks, we continue to have a favorable view of select property and casualty insurers. We are attracted to those insurers that look to underwrite for a profit, and note how pricing has recently started to improve for some parts of the industry, a feature which enhances its investment appeal.

Regarding areas of concern, the competitive conditions for credit card companies, regional banks, and business development companies (BDCs) do not, generally-speaking, seem to be abating. The more prudent underwriters recognize these conditions and act accordingly by reducing exposures to affected areas, even if it means growth in the loan book slows.

POTENTIAL TAILWINDS AND HEADWINDS

Potential headwinds and tailwinds for the sector are largely unchanged from our initial 2019 outlook, although the severity of a few headwinds has likely increased. The flatness of the yield curve, rising cost of funds, and relatedly, net interest margin (NIM) pressure, have taken center stage, while potential still exists for weakened underwriting and credit stress. Tailwinds from economic expansion and the withdrawal of aggressive, non-bank lenders are seemingly less of a potential benefit now.

HEALTH CARE

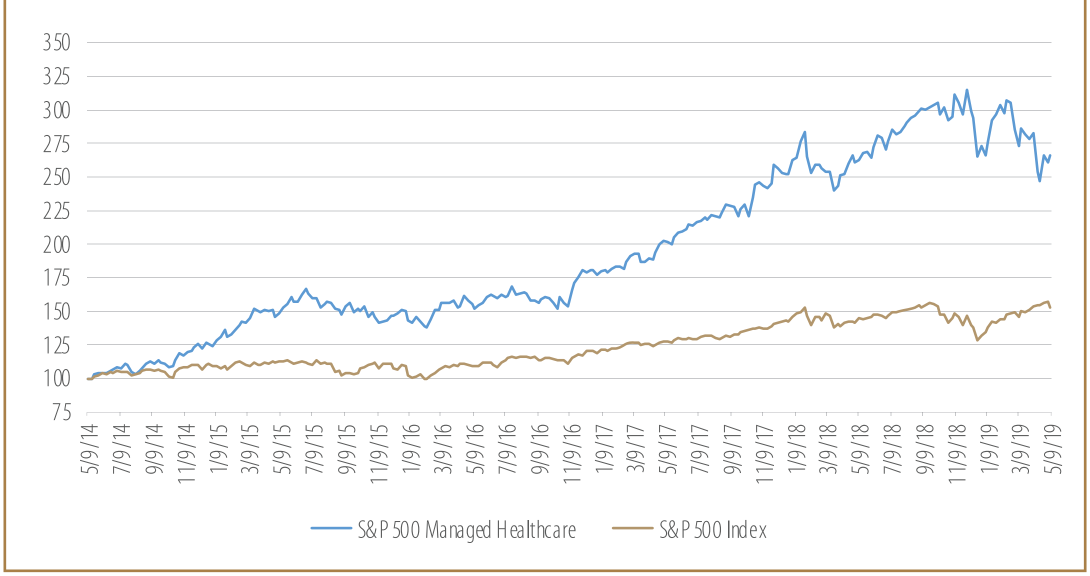
2019 MIDYEAR PERFORMANCE

The Health Care sector was the best performing group in 2018, but the worst performing sector thus far in 2019 (through April). While some of the underperformance could be considered a normal "give back" of some of the 2018 gains, growing political rhetoric and investor uncertainty has been the primary driver of the relatively weak performance year-to-date, as the early stages of the 2020 election cycle has raised the sector-specific risks.

SECTOR DRIVERS AND THEMES FOR 2019

During 2018, investors in the Health Care sector looked past concerns over rising interest rates, trade/tariff concerns, and overall economic uncertainties that presented challenges for many other sectors. Sector-specific concerns specific to Health Care have emerged in 2019, however, driven in large part by a significant ramping of political rhetoric. The Managed Care sub-sector, in particular, has been negatively impacted by the continued discussion of so-called "Medicare for All" plan, a potential Government-run health care system advocated by many of the Democratic candidates for President. With nearly 18 months to go before the 2020 election, we anticipate political risk will likely remain a key headwind for the sector, with specific focus on Medicare for All and potential efforts by Congress and the Trump Administration with respect to controlling drug prices.

S&P 500 Managed Healthcare vs. S&P 500 Index



The Managed Care sub-sector has pulled back sharply in 2019 over concerns with a potential Medicare for All single payer health system. Still, it's worth noting that the S&P 500 Managed Care index has significantly outperformed the S&P 500 over the past five years despite the recent decline.

Source: Factset. Data from 05/09/2014 through 05/09/2019.

Indexed to 100 as of 5/9/2014. An index is not managed and not available for direct investment.

The S&P 500 Sector Indices measure the performance of the widely-used Global Industry Classification Standard (GICS®) sectors and sub-industries. Each index (S&P 500 Managed Healthcare) comprises those companies included in the S&P 500 that are classified as members of their respective GICS® sectors. The S&P 500 is a market capitalization-weighted index generally considered representative of the U.S. stock market.

Past performance is no guarantee of future results.

WHERE TO INVEST IN 2019

We believe the outlook for the overall Health Care sector remains favorable for long-term investors, though sector-specific issues could make the near-term challenging for the sector. In particular, we believe Medicare for All will likely remain front and center as a talking point among the Democratic candidates for President, which could present an ongoing headwind for Managed Care stocks for the foreseeable future. We believe the odds are extremely low, however, of a single payer health care system being adopted in the United States, as the costs involved appear to present insurmountable fiscal hurdles. See our Equity Sector Insight, "Ongoing Rhetoric Regarding Medicare for All Proposal Weighing Heavily on Managed Care Stocks" for additional information.

POTENTIAL TAILWINDS AND HEADWINDS

We believe catalysts in the Health Care sector include new product approvals and key clinical data milestones. M&A activity could also boost valuations in specific sub-sectors. Meanwhile, we believe headwinds include concerns over drug pricing, company-specific exposure to the opioid crisis, or the theoretical adoption of a single payer health care system or other meaningful, structural changes to the health care system.

Looking at Health Care sector positioning for the remainder of 2019, we continue to favor the Medical Device sub-industry, as overall fundamentals are favorable and the group is expected to remain relatively insulated from macro risks and the sector-specific headwinds we have discussed. Meanwhile, we continue to suggest a neutral stance on Managed Care companies and the Pharmaceutical sub-industry, reflecting our concerns over elevated political risk, specifically revolving around ongoing discussions of Medicare for All and efforts aimed at lowering drug pricing. We don't expect Medicare for All proposals to hold up well to deeper scrutiny from investors or voters, however, given what we believe to be insurmountable fiscal hurdles to adopting such a program. As such, coupled with more attractive valuations, we believe an eventual waning of the Medicare for All hysteria could present investors with an attractive opportunity in the Managed Care sector in coming months.

INDUSTRIALS

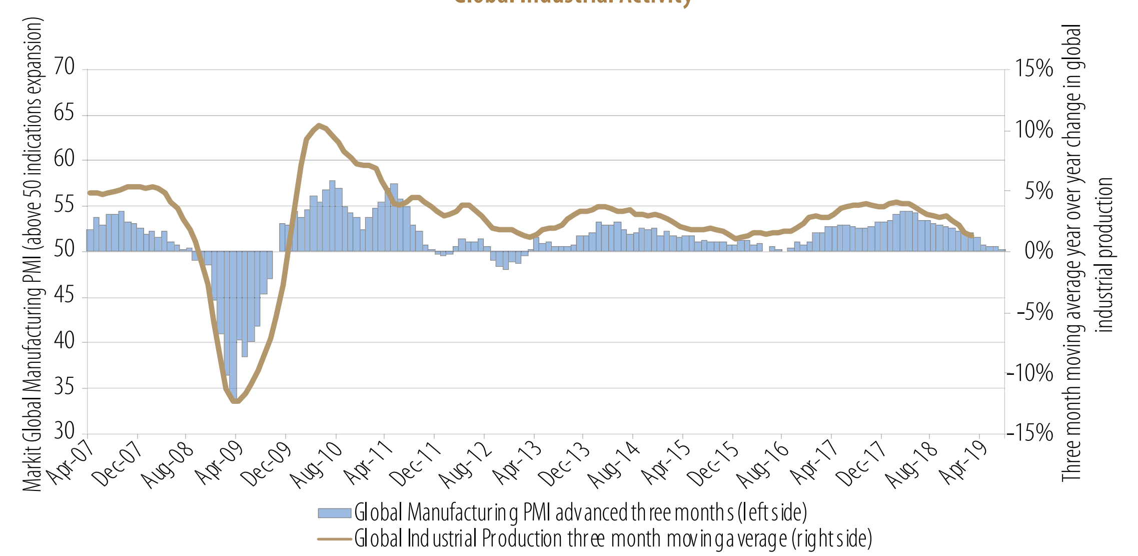
2019 MIDYEAR PERFORMANCE

Industrials are the fifth-best performing sector in the S&P 500 year-to-date (as of May 23, 2019), modestly outperforming the overall market. We believe the combination of stability in certain end markets, a material reversal in U.S. Federal Reserve policy, and hopes for a U.S.–China trade deal were the drivers of the sector's outperformance. We continue to shift our intra-Industrials allocation toward longer cycle sub-industries.

SECTOR DRIVERS AND THEMES FOR 2019

We believe the key theme in the Industrials sector year-to-date has been the divergence between short cycle and long cycle trends. Many end markets that are traditionally shorter cycle in nature (i.e., automotive, semiconductors, residential construction, upstream energy) have remained under pressure, while those end markets that are typically longer term in nature (i.e., aerospace, mid and downstream energy, automation, non-residential construction) have continued to show strength. The sector has performed well year-to-date, but we would point out that there are several potential positives (fiscal and monetary policy, stability in certain key end markets) and negatives (elevated inventories, trade uncertainty, duration of the cycle) that continue to evolve.

Global Industrial Activity



Near-term global industrial production indicators have continued to soften in 2019.

Sources: J.P. Morgan, Markit, Netherlands Bureau for Economic Policy Analysis, Wells Fargo Advisors

PMIs are surveys of purchasing managers that are used to measure sentiment and predict demand in the near future. 50 represents the breakeven between expansion and contraction in overall conditions.

An index is not managed and not available for direct investment.

WHERE TO INVEST IN 2019

We are witnessing signs that this industrial cycle is maturing, both in terms of specific end markets and broader indicators. Against this backdrop, we are increasingly attracted to those companies/industries that have extended backlogs, more certain order patterns, and longer product cycles.

We are broadening our list of sub-industries within Industrials that we are less favorable on. We now view machinery, trading companies and distributors, and transports (excluding railroads) less favorably. Multiples have expanded meaningfully for these groups year-to-date (along with the Industrials sector as a whole), despite continued weakness in the majority of forward-looking short-cycle indicators that we track.

We are also narrowing our list of more favorable sub-industries to include defense contractors and long-cycle-oriented multi-industrials. The first two sub-industries are primarily exposed to relatively more stable end markets than the Industrials sector in general, including commercial aerospace, defense, energy, automation, and commercial construction.

We would note that the frequency of our sub-sector changes could remain elevated in 2019.

POTENTIAL TAILWINDS AND HEADWINDS

Stronger than expected fiscal/monetary stimulus from the U.S. or China could increase aggregate demand for capital spending in the global industrial environment. Firmer commodity prices could also drive increased investment in the energy and mining end markets.

Meanwhile, U.S.-China trade tensions and uncertainty related to other trade negotiations could continue to negatively impact business sentiment.

INFORMATION TECHNOLOGY

2019 MIDYEAR PERFORMANCE

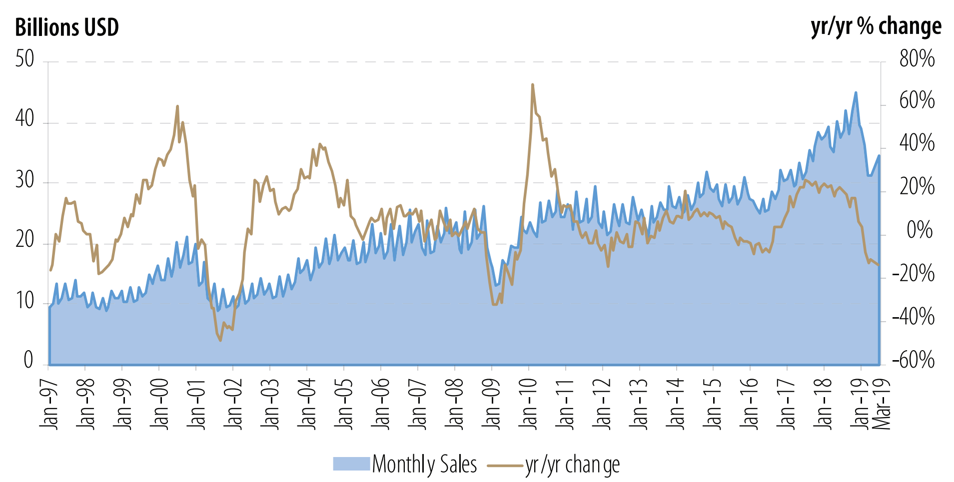
The S&P 500 Technology sector outperformed the benchmark S&P 500 Index through the end of April 2019. The sector posted a solid rebound to start the year following a difficult end to 2018. We continue to favor software companies with exposure to the cloud and firms providing content to the build-out of the fifth generation (5G) wireless network. Geopolitical and regulatory headwinds continue, and the timing of a potential trade resolution and trajectory of a possible recovery remain uncertain. Performance within Technology may not be as broad-based as in recent years and investors should be more selective when gaining exposure to the sector.

SECTOR DRIVERS AND THEMES FOR 2019

Numerous long-term trends are converging simultaneously, including a dramatic increase of connected devices, 5G network buildout, artificial intelligence, self-driving vehicles, and augmented/virtual realities. We believe these long-term technology trends are intertwined on multiple levels. Although there may be short-term disruptions, the longer-term viability will rely on the backbone developed to support these innovative applications.

We believe the secular shift to the cloud remains one of the most powerful themes in software. It represents a generational shift and we are likely in the early years of a multi-decade migration. Revenue derived from cloud businesses has risen at a rapid pace and the three largest cloud vendors continue to establish their dominance. Businesses of all shapes and sizes continue to move applications to both the public and private clouds. We believe the "winning" cloud model will likely be a hybrid cloud structure offering a seamless application for the end user.

Worldwide Semiconductor revenues



Worldwide semiconductor sales totaled more than $448 billion in 2018. However, they seem to have reached a short-term peak during the third quarter of 2018. We believe data center customers were purchasing inventory in anticipation of a prolonged U.S./China trade war. These businesses are currently digesting existing inventories and many within the industry are forecasting a rebound in the second half of the year.

Source: World Semiconductor Trade Statistics, Wells Fargo Advisors
Data through March 2019

WHERE TO INVEST IN 2019

In our view, the 5G network buildout should provide the infrastructure to support many of these long-term technology trends. 5G is designed to be a super-fast, very high capacity network that will allow for communication among millions, if not billions, of connected devices. The 5G rollout is expected be a multi-year process with the infrastructure buildout likely step one. Although we are in the early stages, the initial groundwork has already begun and activity should accelerate as we progress through 2019. We would caution that a drawn-out US/China trade dispute could dampen the pace of the 5G infrastructure buildout in the short-term.

To capitalize on the construction of the network, we would initially target networking, hardware, semiconductor, and infrastructure providers. Within networking and hardware, companies that provide equipment used in mobile networks (routers, switches, antennas, etc.) or handsets are favored as the 5G network expands. Semiconductor manufacturers provide chips throughout multiple points along the mobile communication chain, including mobile devices, antennas on cell towers, routers and switches, and remote radio units.

POTENTIAL TAILWINDS AND HEADWINDS

Substantial policy restrictions on immigration and trade could have resounding impacts on the sector. Additional tariffs could force customers to recalibrate their end-market demand, which would temper any expected rebound within the industry. Further delay to a resolution to the U.S./China trade dispute could increase the cost or impede development of innovative technologies.

The smartphone market has matured and consumers are not replacing their devices as frequently. Innovative features (i.e., faster 5G capabilities) could encourage consumers to replace their existing devices with new handsets.

Following a weak end to 2018, semiconductor stocks (as measured by the PHLX/Semiconductor Index*) rebounded during the first quarter. However, semiconductor stocks retreated during the second quarter, as trade fears reignited and curbs were imposed on a key foreign telecom equipment supplier. We would be selective when gaining exposure to the semiconductor industry, favoring those that supply cutting-edge components to the 5G network build-out.

Throughout numerous quarterly earnings conference calls, management teams indicated they expect a second half recovery. Firms generally believe customers are digesting existing inventories and end-market demand is stabilizing. However, we are not as sanguine on that outlook. In our view, much of the upside related to a recovery has been incorporated into market expectations, and a potential rebound may be more muted and elongated than currently anticipated.

* The PHLX Semiconductor Sector Index[SM] (SOX[SM]) is a modified market capitalization-weighted index composed of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors.

MATERIALS

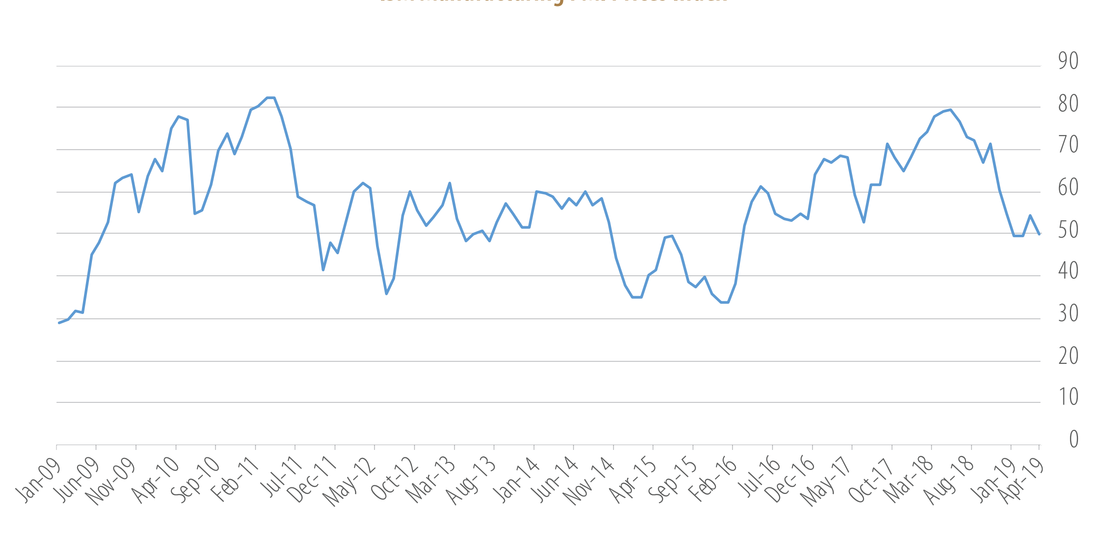
2019 MIDYEAR PERFORMANCE

The S&P 500 Materials sector has underperformed the S&P 500 year-to-date (as of April 2019). This sector is heavily exposed to global economic growth and the combination of weaker demand readings and expanding capacity has been the key driver of underperformance. Input costs for materials companies (many of which are petroleum based) have also seen significant upward pressure, and while this factor has started to moderate in recent months, margin performance has generally been weaker than the Street anticipated.

SECTOR DRIVERS AND THEMES FOR 2019

We expect the rate of inflation in many inputs could moderate somewhat in 2019, but the fears around margins are likely to persist for the group. Global industrial production rates have moderated. Looking ahead, a continued lack of clarity of the U.S.-China trade dispute is likely to result in heightened uncertainty for many commodities/chemicals.

ISM Manufacturing PMI Prices Index



Input cost pressures are likely to ease somewhat for many in the materials space, although concerns could now turn to the ability to increase prices.

Sources: Institute for Supply Chain Management, Wells Fargo Advisors. Data as of April 2019.

The ISM PMIs (Purchasing Managers' Index) Prices paid index is a diffusion index reflecting the change in the prices paid by industry representatives for the products and/or services they receive. Readings above 50 indicate purchasing managers are paying higher prices, while readings below 50 indicate the inverse.

An index is not managed and not available for direct investment.

WHERE TO INVEST IN 2019

We continue to favor the specialty chemicals and industrials gases sub-sectors, as we see heightened M&A activity in recent years as driving increased industry consolidation, company-specific synergies, as well as upgraded (i.e., higher margin) portfolios of assets. Input cost pressures could moderate in the coming quarters, but the demand picture remains choppy and difficult to project. With significant capacity expansion underway in several areas of the materials sector, we believe investors will likely continue to allocate toward the more stable sub-sectors we favor. We continue to view metals and mining less favorably, as despite a more benign commodity price backdrop, companies in this sector have generally continued to post underwhelming financial results. Additionally, we remain concerned that the performance of the metals and mining group continues to be materially impacted by difficult-to-predict government policy.

POTENTIAL TAILWINDS AND HEADWINDS

We believe the greatest risks to the Materials sector are U.S.-China trade tensions, rising input costs, a greater degree of softening in China than the market currently expects, a stronger U.S. dollar, and unexpected weakness in demand for consumer durable goods in developed economies. Potential tailwinds include higher levels of energy/commodity-related investment, strong global growth, and tax reform driving higher than anticipated capital expenditures in the U.S.

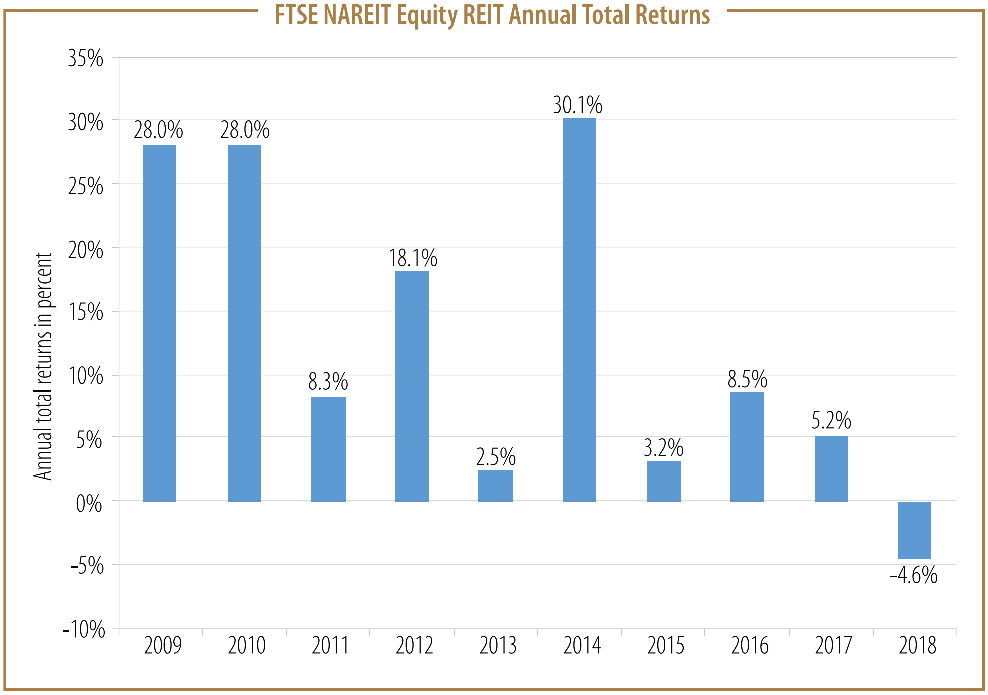
REAL ESTATE

2019 MIDYEAR PERFORMANCE

The S&P 500 Real Estate Sector total return (+17.0%) trailed the S&P 500 total return (+18.3) by roughly 125 basis points through the first four months of 2019. We attribute the real estate sector performance in part to the March 2019 revision in Federal Reserve interest rate policy that reduced expected federal funds rate increases in 2019 from 2 to zero. In our opinion, this change in Federal Reserve policy was a positive for REITs as this policy will likely result in REITs having continued access to attractively priced capital for growth.

SECTOR DRIVERS AND THEMES FOR 2019

We believe a significant influence on 2019 REIT total returns will be the interest rate environment and investor reaction to rate increases. We note when reviewing recent REIT total returns, since 2009 in years when the Federal Reserve was less active in terms of interest rate increases (2009 through 2012, 2014, and 2016) REITs performed well relative to the broader market. Other major factors will likely be the ability of REITs to identify and access attractively priced capital to fund property acquisitions and developments along with the outlook for inflation.



REIT total returns have generally been stronger in years when the Federal Reserve was less active in terms of interest rate increases (2009-2012, 2014, and 2016).

The FTSE NAREIT US Real Estate Index is designed to present investors with a comprehensive record of REIT performance that spans the commercial real estate space across the U.S. economy, offering exposure to all investment and property sectors. An index is not managed and not available for direct investment.

Source: NAREIT, FactSet.

Past performance is no guarantee of future results.

WHERE TO INVEST IN 2019

REITs that may outperform during a period of lower interest rates and modest inflation would include REITs with longer lease terms such as health care, freestanding retail/net lease, and certain retail categories. REITs with longer lease terms are generally viewed as providing stable cash flow and as a result these REIT sectors often generate attractive total returns in lower interest rate or low inflation environments. In lower interest rate environments, many REIT investors are attracted to the long-term cash flow streams and generally higher dividend yields offered by many REITs in the health care and freestanding retail/net lease sectors. On the earnings growth front, we expect certain specialty REITs (particularly communications infrastructure REITs) and industrial REITs to produce strong earnings growth due to robust underlying demand from their tenants. Industrial REITs are experiencing higher demand driven by higher e-commerce sales and customers seeking to improve their supply chain. Conversely, we believe sectors with shorter lease terms may lag the Real Estate Sector during the balance of 2019 if the Federal Reserve remains on the sidelines and keeps interest rates unchanged. REITs with shorter lease terms would include hotels, residential REITs such as apartments, student housing, and manufactured housing, and self-storage. These REITs re-price their properties more frequently and thus often generate attractive returns in periods of higher inflation and stronger economic growth, but may provide weaker returns during times of lower interest rates and modest inflation.

POTENTIAL TAILWINDS AND HEADWINDS

We feel REITs could generate relatively attractive total returns for the balance of 2019 should the Federal Reserve follow its recently disclosed policy and leave the Federal Funds rate unchanged for the remainder of 2019. However, if interest rates rise faster than anticipated, REITs would likely underperform the broader market assuming investors rotate into investments that could provide higher levels of income. The pace of U.S. economic growth and prospects for higher inflation will also likely influence REIT earnings, dividend, and share price growth.

UTILITIES

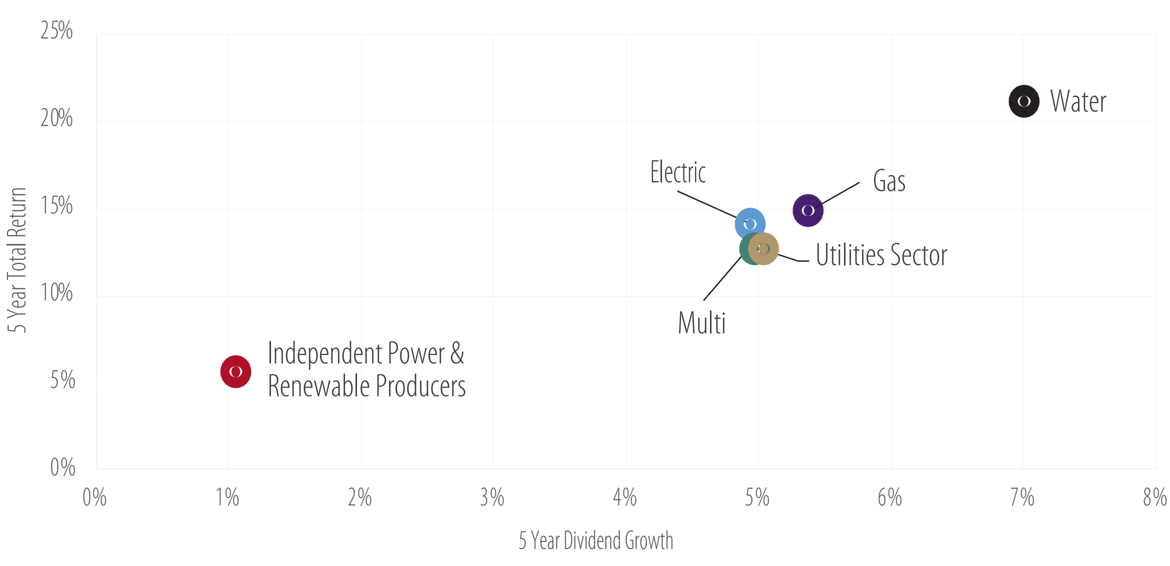
2019 MIDYEAR PERFORMANCE

After outperforming the overall S&P 500 in 2018, the Utilities sector has trailed the index so far this year (as of April 2019), underperforming by about seven percentage points. In absolute terms, however, a nearly double digit return from the generally slow-but-steady Utilities sector is fairly impressive. Among the industries, multi-utilities led the pack, electric lagged slightly and independent power producers and energy traders swung wildly from top to bottom performer over the opening months.

SECTOR DRIVERS AND THEMES FOR 2019

In our view, there are two primary competing drivers for Utility sector performance in 2019—interest rates and investor uncertainty. The sector's steady, defensive, income-centric characteristics make it one of the more sensitive sectors to interest rate movements. We believe this has been particularly true following years of low interest rates that led many investors who may generally prefer fixed income investments to migrate towards the income of utility stocks. As interest rates have risen, those investors rotate back into bonds creating a headwind for utility stock performance. On the other hand, those same characteristics make Utilities a relatively comfortable sector for equity investors during times of uncertainty. With global uncertainty seemingly on the rise—an aging U.S. equity bull market, trade tensions, geopolitical developments—utilities may be a beneficiary.

5-year Annualized Total Return and Compound Annual Dividend Growth



The accompanying graph highlights the relationship between dividend growth, which is often associated with general growth of the utility, and total return over the five-year period from 2014–2018. Not shown, however, is valuation which shows a similar relationship, i.e., water and gas trade at premiums to the overall sector.

The S&P 1500 Sector Indexes measure the performance of the widely-used Global Industry Classification Standard (GICS®) sectors and sub-industries. Each index (Electric, Gas, Independent Power & Renewable Producers, Multi and Water) comprises those companies included in the S&P 1500 that are classified as members of their respective GICS® sectors.

An index is not managed and not available for direct investment.

Source: Factset, Wells Fargo Advisors. Data through 12/31/2018.

Past performance is no guarantee of future results.

WHERE TO INVEST IN 2019

We continue to recommend investors focus Utilities sector exposure on primarily rate-regulated names with the potential for above average growth, dividend growth in particular. The rationale behind the "primarily" qualifier is that often times, outsized growth potential stems at least partially from unregulated operations. In an environment of rising interest rates, we believe a growth element from Utilities exposure should prove opportune. From our perspective, the reliable nature of regulated operations should provide the core of a Utilities sector allocation while the riskier unregulated piece should provide enhanced growth but without unduly changing the risk characteristics of the company.

Within this framework, we see opportunities in select electric and multi-utilities with a preference for those at the lower end of the sector's valuation spectrum but caution against simply choosing the "cheapest" companies in the sector without first understanding of the issues surrounding each company. We are less favorable on water and gas utilities given current multiples and yields relative to historical levels. These industries, while attractive from a relative growth perspective, are currently trading at what we view as premium valuations.

POTENTIAL TAILWINDS AND HEADWINDS

We believe the factors driving 2018 performance will remain influential as we move through 2019. However, at some point, interest rate sensitivity may decline as the sector's valuation prices in a "normal" interest rate environment. Uncertainty related to U.S. economic growth, trade, and geopolitics could provide support for the Utilities sector for an extended period of time.

We note valuations in the Utilities sector remain high relative to historical levels with dividend yields and earnings multiples at premium levels. We believe utilities with the ability to increase dividends at above average rates relative to peers will likely perform well against the backdrop of a rising interest rate environment. In a rising rate environment we expect utility stock prices generally to come under pressure, potentially bringing elevated valuation multiples down and pushing dividend yields up. We believe a rising dividend stream could lessen the pressure on the stock price as the dividend growth further increases the yield beyond the price decline, particularly over longer investment horizons.

Valuation and Risks

COMMUNICATION SERVICES

- The Communication Services sector currently trades at 17.96x the NTM consensus earnings per share estimate of $9.21; a premium to the sector's average five-year historical valuation of 13.31x. Relative to the S&P 500, the Communication Services sector is trading at 1.09x times relative to is historical level of 0.81x. Historical valuations are skewed and not directly comparable due to the fact that only the Telecommunications industry is accounted for prior to September 21, 2018.
- The way people communicate and consume data is evolving which could lead to disruption in incumbent business models. In Telecom, Media, and Cable, cord cutting is weighing on traditional TV services and therefore impacting how media firms approach consumers. Telecom companies are subject to thorough regulation at multiple levels. An adverse regulatory environment can stifle innovation and returns and add an element of uncertainty.

CONSUMER DISCRETIONARY

- The Consumer Discretionary sector currently trades at 21.21x the NTM consensus estimate of $44.20. The current P/E ratio is above the five-year historical valuation of 18.84x. Relative to the S&P 500, the Consumer Discretionary sector is trading at 1.28x, above historical levels of 1.15x. Historical valuations are skewed by the fact that the Media and Digital Streaming & Internet Services industries left the Consumer Discretionary sector and moved into the Communication Services sector as of September 21, 2018.
- Risk considerations for the Consumer Discretionary sector include (1) apparel price deflation due to low-cost entries, high inventory levels and pressure from e-commerce players, (2) reduction in traditional advertising dollars as social media ad spending increases, (3) increasing household debt levels that could limit consumer appetite for discretionary purchases, (4) declining consumer acceptance of new product introductions, and (5) geopolitical uncertainty that could impact consumer sentiment.

CONSUMER STAPLES

- The Consumer Staples sector currently trades at 18.96x the NTM consensus estimate of $30.82. The current P/E ratio is slightly below the five-year historical valuation of 19.03x. Relative to the S&P 500, the Consumer Staples sector is trading at 1.15x, in line with historical levels of 1.16x.
- Risk considerations for the Consumer Staples sector include a softer macro environment, intense competition, downward pricing pressure from retailers and off-brands, customer concentration, availability and cost of raw materials, consumer perceptions towards processed foods, and complexities associated with acquisitions. In addition, a perceived increase in real interest rates could impact investor sentiment towards the Consumer Staples segment, as investors, over recent years, have used this sector as a perceived safe-haven yield alternative to traditional fixed-income vehicles during the low interest rate environment.

ENERGY

- The energy sector is currently trading at price-to-book value (P/B) of 1.66x. The current P/B ratio is slightly below the five-year average for the group of 1.77x. Relative to the S&P 500, the energy sector has been trading at 0.50x P/B, below the five-year historical average of 0.64x.
- Risks include weakness in the economy world-wide, commodity price exposure, slow macro-economic recovery, reserve replacement, exploration risk, and a slow approval process for liquid natural gas (LNG) projects by regulatory and government agencies. Additionally, Master Limited Partnerships (MLPs) can be exposed to volumetric risk, commodity price exposure, potential customer concentration risks, asset depletion, and even seasonality in the case of propane.

FINANCIALS

- The Financials sector currently trades at 11.86x the NTM consensus earnings per share (EPS) estimate of $38.39. The P/E ratio reflects a discount compared with the five-year historical valuation of 12.98x. Relative to the S&P 500, the Financials sector is trading at 0.72x which is slightly below historical levels of 0.79x.
- Key risks to the Financials sector include maturation of the credit cycle resulting in higher credit losses and tighter lending standards, lower interest rates leading to a reduction in profitability, and capital market weakness reducing assets under management as well as constraints around accessing the markets for growth capital.

HEALTH CARE

- The health care sector is currently trading at 14.93x the NTM consensus earnings per share (EPS) estimate of $69.02. The current P/E ratio remains below the five-year average for the group of 15.96x. Relative to the S&P 500, the health care sector has been trading at 0.90x, modestly below the 0.97x five-year historical average level.
- Risks to companies within the health care sector include competition on branded products, sales erosion due to cheaper alternatives (such as generic pharmaceuticals and/or biosimilar products), research & development risk, and dependence on regulators such as the Food and Drug Administration (FDA) to approve products anticipated to enter the market. Additionally, companies can be exposed to cuts in Medicare reimbursements (either based on yearly review or due to sequestration) as well as uncertainty surrounding healthcare reform efforts in the U.S.

INDUSTRIALS

- The Industrials sector currently trades at 15.83x the NTM consensus estimate of $40.60. The current P/E ratio is below the five-year historical valuation of 16.33x. Relative to the S&P 500, the Industrial sector is trading at 0.96x, just below historical levels of 0.99x.
- The Industrials sector is heavily influenced by underlying conditions in the global economic environment. Many companies in the sector are also heavily tied to government policy in multiple jurisdictions, covering topics such as trade, taxes, interest rates, and fiscal spending. The pace of technological change also appears to be accelerating which could make incumbent business models more challenging in the future.

INFORMATION TECHNOLOGY

- The Information Technology sector currently trades at 18.91x the NTM consensus EPS estimate of $71.23. The P/E ratio is above the five-year historical valuation of 16.79x. Relative to the S&P 500, the Information Technology sector is trading at 1.14x, which is modestly above historical levels of 1.02x. Historical comparisons are skewed as a result of the Internet Services and Home Entertainment & Software industries which left the Info Tech and moved into the Communication Services sector as of 9/21/2018.
- Risks for the Technology sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management.

MATERIALS

- The Materials sector currently trades at 15.79x the next-twelve-month (NTM) consensus EPS estimate of $21.81. This P/E ratio is below the average five-year historical valuation of 15.93x. Relative to the S&P 500, the sector is trading at 0.95x roughly in line with historical levels of 0.97x.
- The sector is sensitive to fluctuations in and relationships among commodity prices, particularly crude oil, natural gas and NGLs, metals, and agricultural products. China has been a major factor in driving demand and therefore pricing for many commodities. A global economic slowdown would weigh on the Materials sector's performance. Many materials companies have significant operational exposure to foreign currencies. Additionally, many commodities are priced in U.S. dollars. Strength in the U.S. dollar could negatively impact reported results within the sector.

REAL ESTATE

- The Real Estate sector currently trades at 18.77x the NTM consensus estimate of $11.73. Relative to the S&P 500, the sector is trading at 0.96x. Five-year historical averages are not available as Real Estate began trading as standalone sector in August 2016. The sector yields 3.3% relative to the S&P's yield of 2.0%.
- Risks to the Real Estate sector include general weakness in U.S. economic growth that could negatively impact demand for residential and commercial real estate, saturation in key markets, a lack of access to attractively priced capital for external growth, and significant increases in interest rates which would make the yields on real estate securities relatively less attractive.

UTILITIES

- The Utilities sector trades at approximately 18.29x the NTM consensus EPS estimate of $16.02, which is below its five-year historical average of about 16.92x. Relative to the S&P 500, the Utilities sector is trading at 1.11x, modestly above historical levels of 1.02x. The Utilities sector pays an annual dividend of about 3.4%, compared to the yield of 2.0% within the S&P 500 Index.
- Regulatory risk remains the key uncertainty for the Utilities sector, both at the federal and state levels. Additionally, Utilities typically carry high debt levels, and rising rates could impact their overall borrowing costs. High debt levels could also put a strain on credit ratings, which would also limit the ability to finance capital expenditures. As M&A activity increases, companies may face challenges when integrating those acquired businesses.

Other Risk Considerations:

Business Development Companies: Investing in a Business Development Company (BDC) involves economic, credit, and liquidity risks in addition to the special risks associated with investing in a portfolio of small and developing or financially trouble businesses. BDCs are exposed to high credit risk amplified through leverage. The use of leverage can magnify any price movements resulting in high volatility and potentially significant loss of principal.

Equity Securities: Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities. Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

Master Limited Partnerships: Investments in Master Limited Partnerships (MLPs) involve certain risks which differ from an investment in the securities of a corporation. MLPs may be sensitive to price changes in oil, natural gas, etc., regulatory risk, and rising interest rates. A change in the current tax law regarding MLPs could result in the MLP being treated as a corporation for federal income tax purposes which would reduce the amount of cash flows distributed by the MLP. Investment in real estate securities include risks, such as the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions.

Real Estate: Investment in real estate securities have certain risks, including the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions.

Past performance cannot guarantee future results.

Dividends are not guaranteed and are subject to change or elimination.