Wells fargo investment strategy report

Presenter: Paul Christopher, CFA, Head of Global Market Strategy, Wells Fargo Investment Institute How Can the November Elections Affect Portfolios? That's the question in a lot of people's minds. Of course, elections have economic and investment consequences, but we consider the perspective important in the midst of political rhetoric. Here are the points to consider: Title graphics: Both presidential candidates are still positioned to win first, both presidential candidates are still positioned to win. Polls show former Vice President Biden has a significant lead, but President Trump can still regain that advantage. Title graphics: The party that wins the White House is likely to control the Senate second, we believe that the party that wins the White House is likely to control the Senate. We expect Democrats to retain the lead in the House of Representatives, but we also think it's likely that the Senate will follow the presidential election. If Biden leads, the one-party government will most likely return in 2021. But if Trump prevails, Congress could break the lead. Title graphics: One-party government may coincide with a favorable investment environment Third, one-party government may coincide with a favorable investment environment. Half of the presidential elections held since 1944 have brought in a one-party government. But the unified government has typically coincided with a price rate on the S&P 500 Index, slightly above the average annual price gains over the past 75 years. Table on screen: &Table P 500 Index Yield ** 1945-2019* S&P 500 Average Yield – Every Year: 9.67% Average Yield Under Single Government: 10.63% Sources: Bloomberg, Wells Fargo Investment Institute, August 14, 2020. *Analysis excludes 2001-2002 since Senator Jeffords switched parties in mid-2001. **Only price yields, excluding dividends. Unified government: The presidents and leaders of both chambers of Congress belong to the same party. Unified Congress: One party leads both chambers of Congress; chairman of the other party. Split Congress: Various parties lead the chambers of Congress. Title graphics: The pandemic and the slow global economic recovery will be the primary focus of the two-party platforms Next, we believe the pandemic and the slow global economic recovery will be the primary focus of the two-party platforms, and that some investment opportunities may arise from these plans. Policy proposals extended federal spending on health care and infrastructure, as well as encouraging U.S. manufacturing renewal support from both Republicans and Democrats. Our current investment preferences are already in line with these trends, so we support the alignment of portfolios with our preferred markets and sectors before the election. Title image: Elections are just the start of the investment not the ends ends Finally, elections can change only the beginning, not the end, of how to make the investment environment. There are clear differences between the parties, with the balance of power, the legislative agenda and key appointments arising between March 2021 still unknown. We therefore support from now until March that we have spent time preparing for investment opportunities that may be introduced after the election. But we don't want to wait for every idea. Some of the tax strategies available today could come to an end in 2021, so we think it is time to review tax planning strategies – especially in light of possible changes to property planning rules. For more insight into the issues that matter most to investors, the most likely election scenarios, and what these scenarios could mean for investor portfolios-immediate and long-term-See the Wells Fargo Investment Institute Special Report: Guide to the 2020 Elections Title Graphic: For more information, download the special report, next September 10 General Disclosures Wells Fargo Investment Institute, Inc. is not a legal or tax advisor. 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Wells Fargo Advisors is a trading name used by Wells Fargo Clearing Services, LLC, Member-SIPC, a registered broker-dealer and non-banking subsidiary of Wells Fargo & Company. Michael Taylor, CFA, investment strategy analyst at Cash is an important use, but we believe it is not the best long-term investment option for most investors. Over a long period of time, inflation can erode the purchasing power of cash. Our research has found that investors on average keep more cash in their portfolios than we would recommend. Investors can use dollar-cost averaging to distribute free cash. Cash is an important use, but I don't think this is the best long-term investment option for most investors. Cash can be a temporary parking space for funds waiting to be invested, but over a long period of time inflation can erode its purchasing power. We believe cash and cash alternatives have a place in the portfolio. But how much cash does an investor have to keep in their portfolio? The answer can be complicated, especially in times of market uncertainty. We recommend that investors set aside 3-6 months of living expenses for an emergency fund. However, the amount of liquid assets offered may depend on a number of factors, such as market conditions, major life events, job security and incidents. When it comes to cash, it's a time horizon. In our view, investors need to have enough cash to meet short-term liquidity needs to avoid selling assets at an inopitable time. But our research has found that investors hold more cash than we would recommend. We believe that investors holding too much cash could miss out on the latest market recovery potential and hamper long-term performance. Over time, the value of cash erodes due to the effects of inflation. While inflation may be low today, this could change in the future. Riskier assets, such as stocks, are able to outrun inflation, but they involve an increase in volatility. Figure 1: Cash has struggled to keep up with inflation Source: © Morningstar, March 31, 2019 All rights reserved timeframe: 01/31/1980-03/31/2019. The returns displayed are adjusted for inflation, as represented by the Consumer Price Index (CPI-U) of all urban consumers. Cash return represented by the U.S. Treasury bill 3-month index. The hypothetical balanced portfolio is represented by the IA SBBI U.S. Large Stock TR Index, 40% IA SBBI U.S. Intermediate-Term Government TR Index. The CPI is a measure for all urban consumers to make changes in basket prices for goods and services purchased by urban consumers U.S. Treasury Bill 3-month Index measures the fulfillment of direct liabilities of the U.S. Treasury. The yields displayed are compiled from the yields available at the weekly auction of Treasury bills. Assembly. 90-day term. Ibbotson Associates Stocks, Bonds, Accounts and Inflation Series (IA SBBI) U.S. Large Stock TR Index: The High-Capitalization Stock Total Yield Index Is Based on S&Amp;Amp; P Composite Index. This index is an easily available, carefully constructed, market value-weighted benchmark for high-capitalization stock performance. The total return on the large capitalization stock is P Dow Jones Indices provide the total return based on the daily reinvestment of dividend payments on the day without coupon. Ibbotson Associates Stocks, Bonds, Accounts and Inflation Series (IA SBBI) U.S. Medium-Term Government Bonds TR Index: a bond portfolio used to build the intermediate-term government bond index. The bond selected each year is the shortest non-callable bond with a maturity of not less than five years and a calendar year . The total yield on interim government bonds between 1987 and 2014 is calculated from The Wall Street Journal's price, using the coupon accrual method. The index is not managed and is not available for direct investment. The chart is for illustrative purposes only. It does not mean a specific investment. Hypothetical and past performance does not guarantee future results. For illustrative purposes only. Index yields do not represent an investment return or the results of actual trading. Index yields reflect general market results, assume reinvestment of dividends and other dividends and do not reflect the deduction of fees, expenses or taxes applicable to the actual investment. For index definitions at the end of the report, see . For decades, investors have been able to obtain a small real (post-inflation) return on cash. The trend has since reversed and the cash investor has been losing ground since the early 2000s. A balanced portfolio with a 60/40 percent mix of stocks and bonds saw growth over the same period and preserved some significant selloffs (Figure 1). When you consider the recent selloff triggered by coronavirus and lockdowns, the investor who remains invested surpassed the one who did not participate. Based on our analysis, a portfolio that recently increased cash holdings to 15% (from March 2020 to mid-2020), underperformed and with only 3% cash left in the recovery period. A portfolio that redistried half of its capital allocation to cash over the same period underperformed one with 3% cash by 15%. Our research has also found that sitting on the sidelines also involves risks. Our analysis shows that more than 20- and 30-year periods are missing the 10 best days on the market as they can reduce potential investments by 50%. And often times the day in the market follows the worst day to try to make the time of the market almost impossible. Cash on the sidelines Cash can provide funds to invest. If an investor has large amounts of cash from selling a house or a inheritance, we do not recommend rushing to invest. Instead, for portfolios with cash holdings in excess of the proposed allocation, we encourage investors to invest in the market judiciously and easily. One possible strategy is to average the dollar cost - a systematic approach to investing cash gradually over time to take advantage of market fluctuations. Dollar-cost averaging ignores day-to-day market fluctuations that make it difficult to pin exactly the optimal time to invest. Instead of investing in markets in one lump sum, a fixed dollar amount is regularly invested over a given period. This includes investing an equal share of the cash amount on a monthly, bimonthly, or quarterly basis. We believe that this approach can help to average purchase prices of assets. While dollar-cost averaging does not guarantee a profit or protect the portfolio from loss, the strategy focuses on asset accumulation in a systemic manner. Determining whether dollar-cost averaging is the right strategy for the investor requires an assessment of the financial situation, risk tolerance and investment objectives. We encourage investors to talk to an investment professional to see if dollar-cost averaging can be an appropriate strategy. Shares in Chris Haverland, CFA, Global Asset Allocation Strategist We expect the global economy to continue its recovery in 2021, which will benefit economically sensitive asset classes and sectors. Recently, we have made our model portfolios even more cyclical by developing the materials and industry sector and downgrading the information technology sector. Making our model portfolios more cyclical is expected to improve sustainable global economic growth by 2021. This should benefit economically sensitive asset classes and sectors, prompting us to add more cyclicality to our model portfolios. In addition to the recent upgrading of emerging market equities, we have also upgraded the materials and industrial sectors while downgrading the information technology sector. Materials (Neutral to favorable) - We ask that sales and revenues grow to double-digit growth in 2021 as global industrial production activity recovers. We believe the weakening U.S. dollar and potential increased infrastructure spending are positive for the sector. Although price/income (P/E) valuation has increased, we believe it remains cheap compared to S&E; P 500 Index. Industrial (Unfavorable neutral) - Industry, which is one of the most sensitive sectors of economic growth, should affect our expectations of a recovery in the and industrial production. The fundamentals of airlines and the commercial aerospace industry are improving more slowly than the rest of the sector. However, there are the effective COVID-19 vaccine becomes widely available. The P/E rating is above average, but as the visibility of earnings improves, the valuations become more reasonable. IT (Most favorable for the favorable) - Fundamentals remain strong in the sector, but as economic growth accelerates, investors shift focus to sectors that are more sensitive to recovery. We still believe that IT is doing better in the wider market and offers investors exposure to high-quality shares with strong growth characteristics. Reducing the guidance will create an opportunity to close certain profits and shift our place towards more cyclical sectors. Key Industry Performance in 2020 Resources: Wells Fargo Investment Institute, Bloomberg, 2020. Indexes were indexed to 100 from 10/31/20. The index is not managed and is not available for direct investment. Past performance does not guarantee future results. See Index definitions at the end of the report in the Definitions section. Fixed income Luis Alvarado, investment strategy analyst We believe high-yield (HY) municipalities still offer opportunities for those investors who want to increase their resources for yield while diversifying into other sectors of the municipal space. At this time, we believe HY municipal defaults remain low and we expect to remain close to this level because there is not much debt kinnisen in those sectors at higher risk of default. High-yield municipal bonds remain attractive Many fixed-rate investors continue to face yield ilemma while looking for income-generating assets. We believe that high-yield (HY) municipalities still offer opportunities to investors who want to increase their sources of return while diversifying other sectors of the municipal space. Sectors in this area are more concentrated than investment-grade (IG) municipalities and have lower commercial volumes. Therefore, liquidity may be limited if problems arise. Furthermore, if the second wave of covid-19 deteriorates, this could further deteriorate in HY municipal loans, which could lead to significant defaults. Currently, the default values remain low (about 1%) and are expected to remain close to this level in the coming year, as there is not much debt in sectors more affected by the pandemic. Historically, IG and HY municipalities have lower default rates and higher recovery rates than taxable securities. Also, many investors continue to direct capital flows toward IG and HY municipalities, and we believe there is still strong potential for more flows going toward HY as the yield differential between IG and HY municipalities remains close to levels not seen since mid-2017. out that we expect interest rates to remain low, we believe HY municipal can provide positive single-digit returns over the next 12 months, and the income received may well be offsetting negative price changes. In our view, the rewards outweigh the risks in the HY muni market. Therefore, our favorable guidance remains. Yield difference we believe will make high-yield municipalities an attractive portfolio of diversified Sources: Wells Fargo Investment Institute, Bloomberg, November 23, 2020. Daily yield data for 2015. The yield differential represents the yield difference between the Bloomberg Barclays high-yield municipal bond index and the Bloomberg Barclays Municipal Bond Index. See publishing topics for index definitions. Past performance does not guarantee future results. Real Assets by Austin Pickle, CFA, investment strategy analyst If you practice gratitude, there is a sense of respect towards others. - Dalai Lama Oil prices have surged recently encouraging COVID-19 vaccine announcements. We suspect that OPEC+ will support the recent price gains announced this week to extend existing production cuts. OPEC + meeting - permanent as it goes? COVID-19 cases in the U.S. and abroad have surged recently, unfortunately. Unsurprisingly, we have also seen an increase in the corresponding encyclical of mobility restrictions. As a result, demand for oil has begun to roll over. Still, oil prices have seemingly shrugged off these developments and spiked roughly 20% in the past month in encouraging COVID-19 vaccine announcements (see table below). This week's OPEC+ meeting will greatly determine whether oil prices will be able to maintain those levels. Will OPEC+ give oil markets anything to be grateful for? That's what we think. OPEC+ cut production this year to support oil markets. The group currently holds back a significant 7.7 million barrels per day. The market consensus - and in our view - is that OPEC+ will extend the current level of cuts to three months or more at this week's meeting. After the Herculean efforts on the part of OPEC+ this year to help balance the oil markets, I doubt the group is jeopardizing that success by increasing production at this time. While vaccine improvements are essential for the recovery of future demand, not much to help current demand. As the number of COVID-19 cases increases, the risks to current oil demand are high. We suspect OPEC+ members are aware of this and will take the stable as they go into position and extend existing cuts. Still, if OPEC+ disappoints, expect vaccine-inspired oil price gains to loosen as the market's focus is likely to flip from future supply/demand hope to current supply/demand despair. West Texas Intermediate (WTI) oil price Sources: Bloomberg, Wells Fargo Investment Institute. Daily data: 2020. Alternatives james sweetman, leading global alternative Strategist Although the risks persist, there is a surprising level of optimism among them 2021 will be a strong year for agreement activity. In the coming year, the automotive, healthcare, technology, consumer goods and financial services will be a potential anamtal. Global Merger and Acquisition (M&t; A) Activity continues to return to global M& With activity plummeting to its lowest level in more than a decade in the second quarter, companies rolled back expansion plans to focus on protecting franchisees in the wake of the coronavirus outbreak. While the pause button can be pressed, the global M&t; Activity has continued to rise toward pre-crisis levels since May. Also since May, the number of $1 billion+ deals has increased for the sixth straight month, and $5 billion+ deals have notch their strongest monthly tally since 2006. In October, the second strongest monthly reported M&T; The volume was recorded this year at $411 billion - the strongest October volume since 2016. Due to the recovery over the past four to five months, global M&T; A-volume decreased by only 17% during the year - compared with 45% at the end of May. It is important that the bigger offers seem to be back in play. Since May, there have been 25 stores worth more than $10 billion, with volumes of $530 billion - compared with just nine agreements of $176 billion in the first five months of 2020. Entering 2021, the momentum we have seen over the past five months seems to be living with growing optimism. According to a survey published by Dykema Gossett in October, 87% of respondents said that in 2021, M&M; It expects activity to grow – the most optimistic year ever to be released in the 16 years since the survey. We consider the top drivers of M&t; In 2021 will be U.S. economic conditions, favorable interest rates, and available capital. Global M&2 The deals continue to rebound Resources: Dealogic, November 2020 and Wells Fargo Investment Institute. Download the PDF version of the report The information here is: (1) owned by Morningstar and/or its content providers; 2. may not be copied or distributed; and (3) it is not justified to be accurate, complete or timely. Morningstar or its content providers are not responsible for any damages or losses arising from the use of this information. 3% cash portfolio consists of 3% cash, 37% fixed income, and 60% equity. The 15% cash portfolio consists of 15% cash, 37% fixed income and 48% equity. The indices used in the analysis were Bloomberg Barclays U.S. Aggregate Bond Index, Bloomberg Barclays U.S. Treasury Bills (1-3 months) Index and S&Amp;C; P 500 Index. See definitions at the end of the report. The dangers of trying to time volatile markets, Asset Allocation Strategy Team, Wells Fargo Investment Institute, March 20, 2020. Municipal Market Analysis (MMA), 2020. The Organisation Exporting countries and others like Russia. Investment and insurance products are: Not insured by the FDIC or any federal government agency with no deposit or other liability, or guaranteed, by the Bank or any bank affiliate subject to investment risks, including the potential loss of the principal amount invested in risk considerations in each asset class's own risk and return characteristics. The level of risk associated with an investment or asset class is usually correlated with the level of return achieved by the investment or asset class. Stock markets, especially foreign markets, are volatile. Share values may fluctuate due to general economic and market conditions, the prospects of individual companies and industrial sectors. Foreign investment has additional risks, including risks related to exchange rate fluctuations, political and economic instability and different accounting standards. These risks are heightened in emerging markets. Small and mid-cap stocks tend to be more volatile, more risk-prone and less liquid than enterprise stocks. The bonds are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices are usually inversely affected by changes in interest rates. Income from municipal securities is generally exempt from federal taxes and state taxes on residents of the issuing State. While interest income is tax-free, capital gains, if any, will be taxable. Income for some investors may apply to the Federal Alternative Minimum Tax (AMT). High yield (junk) bonds have a lower credit rating and a higher risk of default and a higher main risk. Commodity markets are considered speculative, carry significant risks and have experienced extreme periods of volatility. Investing in a volatile and uncertain commodity market can cause a rapid increase or decrease in the value of the portfolio, which may result in higher share price volatility. The property involves specific risks, including the potential lack of liquidity of the underlying properties, credit risk, interest rate fluctuations and the impact of changing economic conditions. Sector investments may be more volatile than investments that are broadly diversified in many sectors of the economy and increase the portfolio's vulnerability to a single economic, political or regulatory development affecting the sector. This may result in higher price fluctuations. There is a higher risk to the industrial sector. Industries within the sector may be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulation, all of which are significantly performance of the portfolio. The financial side may be significantly affected by fluctuations in commodity prices, issues between foreign currency and dollar, export/import concerns, worldwide competition, procurement and production, and cost reduction. Risks related to the technology sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory measures, technical problems with key products, and the departure of key management members. Technology and Internet-related stocks, especially smaller, less experienced companies, tend to be more volatile than the overall market. Alternative investments, such as hedge funds, private equity/private equity and private equity funds, are speculative and involve a high degree of risk suitable only for investors with financial sophistication and expertise to assess the benefits and risks of investing in a fund for which the fund does not provide a complete investment programme. They involve significant risks, which may include losses due to leverage or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transfers of interests to the fund, possible lack of diversification, lack and/or delay of information on valuations and pricing, complex tax structures and delays in tax returns, regulation and fees higher than investment funds. Investing in a hedge fund, private equity, private equity and private property fund involves other material risks, including capital loss and the loss of the total amount invested. The fund's bid documents shall be carefully reviewed before investing. Hedge fund strategies such as equity hedge, event driven, macro and relative value may put investors at risk by using short selling, leverage, derivatives and arbitrage methods. Short selling involves leverage and, in theory, unlimited losses, as the market price of short-selling securities can continue to increase. The use of leverage in the portfolio varies according to strategy. Leverage can significantly increase the potential for return, but can cause greater risk of loss. Derivatives usually have implied leverage that can magnify volatility and may involve other risks, such as market, interest rate, credit, counterparty and management risks. Arbitrage strategies out of a fund risk that expected arbitrage options will not develop as expected, leading to potentially reduced returns or losses for the fund. Definitions: The index is unmanaged and is not available for direct investment. Bloomberg Barclays High Yield bond index is considered representative of the broad market for high-yield, tax-free bonds with a maturity of at least one year. The Bloomberg Barclays Municipal Bond Index is considered representative of the investment classification, a broad market for tax-free bonds with a maturity of at least one year. Total Bloomberg Commodities The index reflects the returns potentially achievable through its investment of 19 physical commodity exchange transactions without leverage and the interest available together with the cash collateral rate invested in the specified Treasury bills. The Index is a rolling index balancing yearly. Bloomberg Barclays U.S. Aggregate Bond Index consists of the Bloomberg Barclays U.S. Government/Credit Index and Bloomberg Barclays U.S. Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities. Bloomberg Barclays U.S. Treasuries (1-3 months) Index representative of financial markets. The INFORMATION Technology Index includes companies included in the index that are members ® the GICS and IT sectors. The substance index includes companies that are included in the index and are members of ® the GICS industry. 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