WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment **March 27, 2024**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +2.3%

Why Industrials (and Materials)?

Key takeaways

- The Industrials sector has some of the broadest economically tied global exposure of any of the S&P 500 Index sectors.
- Many industrial companies will see orders as the beneficiaries of government spending programs.

Some investors might wonder why we carry a favorable rating on the Industrials sector. After all, we are seeing a noticeable slowdown in the economy. We are also not looking for meaningful economic fireworks in the near-to-intermediate term for developed international economies like those in the eurozone and Japan or for emerging economies like China. And with the Industrials sector having some of the broadest economically tied global exposure of any of the 11 S&P 500 Index sectors, what gives?

Remember that the Industrials sector has tentacles that touch a number of other sectors and has often been a beneficiary of government spending, especially in the current environment. For example, there is more than $1 trillion being pumped into the U.S. economy by the Infrastructure Investment and Jobs Act (IIJA), Inflation Reduction Act (IRA), and the CHIPS and Science Act. Our analysis suggests the Industrials sector will see the largest impact from the aggregate effects of these three pieces of legislation. Many companies in this sector will likely see a larger volume of orders for equipment, systems, and consumables into end markets whose participants are direct beneficiaries of subsidies, tax credits, and other forms of funding due to these government actions/programs. Together, these pieces of legislation should take infrastructure investment well beyond the traditional realm of roads and bridges.

And we certainly can't forget, as the financial headlines remind us all every day, about the hottest topic to catch the eye of investors in some time: equities tied to the theme of artificial intelligence (AI). In its simplest terms, AI is a data-crunching exercise. Gigantic quantities of data are accumulated and analyzed. To do this requires enormous amounts of data storage and computing power. Data center construction to house the technology of AI is seeing huge investment[1]. And don't forget about the electrical requirements to run those data centers. All of these technology buildouts and electrical-grid improvements is work performed by companies in the Industrial sector.

But also don't forget about the Materials sector. This sector is represented by companies that produce (mine, formulate, smelt, refine, etc.) the raw materials that go into the construction and production of physical infrastructure. Concrete, copper, aluminum, plastics, and chemicals are just a small handful of the materials Industrial sector companies use to construct plants, produce equipment, and build out and update the electrical grid.

We currently carry favorable ratings on both the Industrials and Materials sectors. Our strategy has been to trim exposure to Information Technology, Communications Services, and Consumer Discretionary sectors as we believe they represent overvalued segments of the market. With those funds, we suggest investors bring Industrials and Materials, along with the Energy and Health Care sectors, up to our recommended portfolio allocations.

1.Worldwide spending on AI by industry 2023 - Statista

Risk considerations

Forecasts are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market.

Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

General Disclosures

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

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

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

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

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-09262025-6506346.1.1