WELLS FARGO
Investment Institute

Market Commentary

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

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +1.7%

Better than expected

Key takeaways

- The run-up in stocks and other assets like home prices has generally increased household wealth and boosted consumer confidence.
- Tariff and immigration restrictions are likely to need time to have their full effect and are likely to add to inflation late in 2025.

A number of things have helped propel stocks higher throughout the year and so far this fall. Of course, one of the keys has been robust consumer spending. The unemployment rate has remained historically low. The run-up in stocks and other assets like home prices has generally increased household wealth and boosted consumer confidence. The services segment of the economy (restaurants, vacations, and other forms of "experiences oriented" spending) remains in expansion mode and has continued to push gross domestic product (GDP) growth forward. Looking ahead, given the results of the recent election, we anticipate an extension of the Tax Cuts and Jobs Act of 2017 (TCJA) as well as a deregulation push that should help increase corporate profitability. These positive factors have contributed to the rationale for increasing our projection for economic growth in the U.S. next year.

But there is another positive to consider. Another factor that improves our economic outlook is the likely Treasury spend down of its Treasury General Account (TGA), potentially injecting $700 to $800 billion into the domestic economy in the first half of next year. This will likely begin to occur after the debt-ceiling extension expires on January 1, 2025. When the debt ceiling expires, the Treasury will not be able to issue new debt until Congress raises the debt limit. It might take until midyear for Congress to act. In the meantime, the Treasury will use the TGA to pay its bills. These TGA funds are currently held outside the banking system at the Federal Reserve but will be transferred into the banking system as reserves. This should result in a somewhat steady stream of liquidity being fed into the banking system and economy.

One of the offsets to better economic growth is the potential inflationary effects of tariffs that the incoming administration has advertised that it will seek to impose on China and other trading partners. One way that tariffs raise domestic inflation is by increasing the prices of goods that U.S. companies will still want to buy overseas (e.g., shoes and food items). Another source of likely inflation would be higher wages after immigration restrictions limit the number of new workers, especially in construction and services industries. Tariff and immigration restrictions are likely to need time to have their full effect, and we estimate that they will add to inflation late in 2025. In the meantime, however, the deregulation and tax-cut extension positives that we expect should be more important for driving economic and earnings growth through the year. The combination of better growth and gradually growing inflation pressures is likely to result in interest rates moving further to the upside, and we now see the yield on the 10-year Treasury note ending 2025 in the 4.5% to 5% range.

Better economic growth and anticipated increased earnings per share have led us to raise our year-end 2025 target range for the S&P 500 Index to 6,500 to 6,700. We expect valuations to remain above the long-term average as large-cap growth companies' positive fundamentals should continue to drive markets and earnings in the coming year. Our favored equity sectors include Energy (most favorable), Industrials, Financials, and Communication Services.

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

© 2024 Wells Fargo Investment Institute. All rights reserved.

Risk considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets** 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. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation, and other risks. Prices tend to be inversely affected by changes in interest rates. Although **Treasuries** are considered free from credit risk, they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

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-05262026-7383272.1.1

© 2024 Wells Fargo Investment Institute. All rights reserved.