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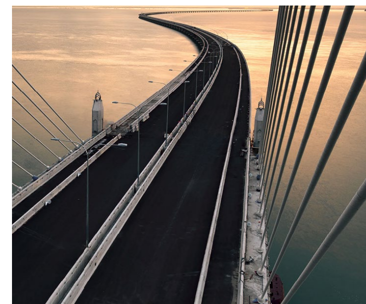
Investment Strategy



Weekly guidance from our Investment Strategy Committee **September 23, 2024**

Asset Allocation Spotlight: The cost of carrying cash in today's environment 2

- Money market funds' assets have reached a new all-time high as the Federal Reserve (Fed) begins its rate-cutting cycle. Investors holding large cash positions face reinvestment risk.
- For investors concerned about potential market corrections, we believe diversification remains a key strategy to balance a pursuit of return while managing downside risks.

Equities: Corporate commentary supports economic soft landing 4

- Recent market volatility has raised questions about the economy and corporate earnings growth.
- Second-quarter earnings growth came in much better than expected, and mentions of recession, inflation, and supply chain issues have reverted back to pre-pandemic levels.

Fixed Income: Where to position on the yield curve 5

- We currently have an unfavorable guidance recommendation on U.S. Short Term Taxable Fixed Income — as the Fed continues to cut interest rates, this asset class is likely to become less desirable.
- Income-oriented investors should consider extending into intermediate-term maturities, not only to lock in rates for a longer period of time but also to be exposed to less price volatility than we may see in long-term maturities.

Real Assets: U.S. oil production may slow with near-breakeven prices 6

- Crude oil demand has been soft in 2024, but we see light at the end of the tunnel with global central banks beginning to cut interest rates.
- U.S. crude oil production has been stronger than expected so far in 2024, but growth may soon fade as new shale-well breakeven costs sit around $64 per barrel.

Alternatives: Where to find income in private markets? 7

- Private markets offer strategies that generate differentiated and attractive income such as Direct Lending, Core Private Infrastructure, and Core Private Real Estate.
- Investors should consider the desirable level of exposure to underlying assets as well as macroeconomic sensitivities when choosing a suitable income strategy.

Current tactical guidance 8

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Asset Allocation Spotlight

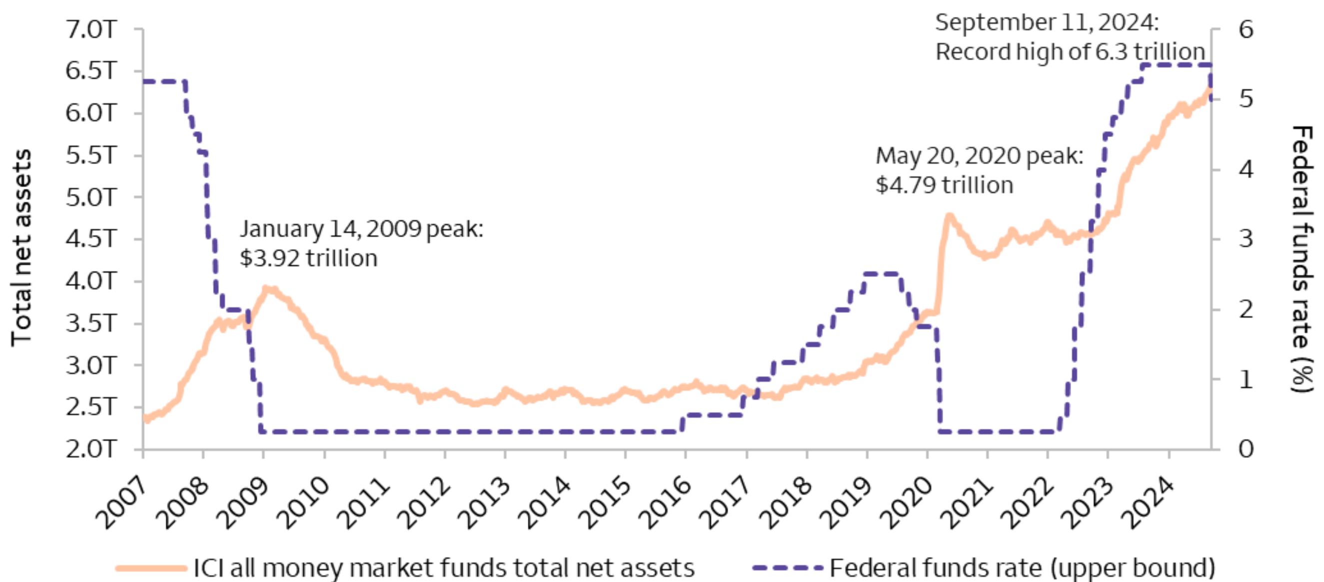
Michelle Wan, CFA
Global Investment Strategist

The cost of carrying cash in today's environment

Since the Fed began to raise interest rates this cycle in 2022, investors increasingly have utilized money market funds as a placeholder to earn interest income while waiting for the economic uncertainty to clear. However, the time may have come to reduce cash alternative allocations as the Fed begins cutting interest rates. Carrying cash has provided investors with a steady stream of interest while avoiding bond-market fluctuations over the past two years, but it is not without risk. Below we highlight two risks of continuing this strategy in the current environment and offer investors guidance on reallocating cash holdings to achieve their desired risk-adjusted returns over the long term.

The risks of carrying cash as rates decline

Chart 1. Money market fund holdings have reached a new record high



Sources: Bloomberg and Wells Fargo Investment Institute. Weekly data from January 1, 2007 through September 11, 2024. Fed funds rate as of September 18, 2024.

Investors carrying an outsized cash position face reinvestment risk — this is the risk of losing the opportunity to reinvest future cash flows or cash positions at the current rate of return. As the bond market adjusts to lower interest rates, investors may find a shortage of investment options to replace a near-5% yield with money-market-like risk. In fixed income, we currently favor the intermediate portion of the curve and like specific sectors such as Residential Mortgage Backed Securities and U.S. Municipal Bonds. We believe reallocating a portion of money market fund positions to our favored fixed-income asset classes can help investors secure coupon income and potentially benefit from asset-price appreciation once market interest rates decline during our tactical timeframe.

A long-term risk of relying on money market funds as a sizable allocation is the cash drag over our strategic time horizon. Over time, riskier assets have outperformed cash and cash-alternative vehicles. Comparing the growth of $1 million since 1926, our research shows that small-cap equities increased the most ($62 billion), followed by large-cap equities ($21 billion). Treasury bills (as a cash alternative) grew to a mere $24 million over the same

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period, barely beating inflation.[1] On a risk-adjusted basis measured by the Sharpe ratios, our long-term capital market assumptions study shows that U.S. equities have beat cash returns over the long term.[2] The power of compounding returns has generally benefited riskier assets like equities while leaving cash in a disadvantaged position for long-term investors. Therefore, we caution investors to avoid cash as a long-term investment strategy or significant allocation.

What should investors do?

While it may be tempting to move cash into a higher-risk asset to obtain a higher expected rate of return, we suggest allocating across asset classes. We believe a diversification strategy offers a blend of growth potential and risk-management provisions for investors with a strategic time horizon. In past corrections, the S&P 500 Index has had a larger drawdown on average (from peak to trough) compared to a diversified allocation. As investors consider reallocating their sidelined cash holdings, it is prudent to review their long-term return expectation and risk tolerance and consider dollar-cost averaging[3] into a diversified allocation strategy that is suitable for their long-term financial goals.

Table 1: A diversified (MGI) allocation endured smaller drawdowns in past corrections

Corrections	S&P 500 Index recovery date	S&P 500 Index drawdown (%)	Days to recover for S&P 500 Index	MGI recovery date	MGI drawdown (%)	Days to recover for MGI
Oct. 5, 1979 – Nov. 7, 1979	Jan. 21, 1980	-10.2	104	May 30, 2024	-8.4	234
Feb. 13, 1980 – Mar. 27, 1980	Nov. 3, 1982	-27.1	993	Aug 31, 1982	-9.7	929
Oct. 10, 1983 – Jul. 24, 1984	Jan. 21, 1985	-14.4	468	Sep. 28, 1984	-4.7	353
Jul. 17, 1998 – Aug. 31, 1998	Nov. 23, 1998	-19.3	126	Dec. 23, 1998	-12.1	156
Nov. 27, 2002 – Mar. 11, 2003	May 12, 2003	-14.7	164	Apr. 22, 2003	-5.9	144
Apr. 23, 2010 – Jul. 2, 2010	Nov. 4, 2010	-16.0	192	Sep. 14, 2010	-7.0	141
Apr 29, 2011 – Oct. 3, 2011	Feb. 24, 2012	-19.4	298	Feb. 1, 2012	-10.8	275
Apr. 2, 2012 – Jun. 1, 2012	Sep. 6, 2012	-9.9	156	Sep. 19, 2013	-6.2	534
May 21, 2015 – Feb. 11, 2016	Jul. 11, 2016	-14.2	416	Jun. 8, 2016	-10.9	383
Jan. 26, 2018 – Feb. 8, 2018	Aug. 24, 2018	-10.2	207	Mar. 15, 2019	-10.2	410
Sep. 20, 2018 – Dec. 24, 2018	Apr. 23, 2019	-19.8	214	Feb. 25, 2019	-9.9	157
Average		**-15.9**	**303**		**-8.7**	**338**

Sources: © Morningstar Direct, All Rights Reserved, and Wells Fargo Investment Institute, as of July 31, 2024. MGI = Moderate Growth & Income. Index return information and performance results for Moderate Growth & Income is provided for illustrative purposes only. **Past performance is not a guarantee of future results.** Performance results do not represent actual trading or experience of any individual investor. In addition, results do not reflect the impact of any fees, expenses, or taxes applicable to an actual investment. The indexes reflect the historical performance of the represented assets and assume the reinvestment of dividends and other distributions. Investment objectives assume the recommended asset allocation and are rebalanced quarterly. The objectives assume dynamic allocations that change as needed with adjustments to the strategic allocations. The objectives represent the benchmark-only returns and do not represent any manager selection. An index is unmanaged and not available for direct investment. Please see the end of the report for allocation compositions, risk considerations, and index definitions. Past performance does not guarantee future results. Note: Corrections are declines of 10% or more. Bear markets are declines of 20% or more. Diversification strategies do not guarantee investment returns or eliminate the risk of loss. Dates of drawdowns align with S&P 500 Index bear markets and corrections. Moderate Growth & Income = 2% Bloomberg U.S. Treasury Bills (1–3 Month) Index, 30% Bloomberg U.S. Aggregate Bond Index, 6% Bloomberg U.S. Corporate High Yield Bond Index, 5% J.P. Morgan EMBI Global, 27% S&P 500 Index, 10% Russell Midcap Index, 3% Russell 2000 Index, 8% MSCI EAFE Index, 5% MSCI Emerging Markets Index, 4% Bloomberg Commodity Index.

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1. Wells Fargo Investment Institute Market Charts, slide title "Asset values have grown over time." Third-quarter 2024. Dfd Large-company stocks: S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value. Small-company stocks: Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. Treasury bills: Bloomberg U.S. Treasury Bill (1–3 Month) Index is representative of money markets. Inflation: Consumer Price Index measures the price of a fixed basket of goods and services purchased by an average consumer.
2. Risk-adjusted returns are measured by Sharpe ratios (expected asset class return in excess of risk-free rate divided by the standard deviation). U.S. equities Sharpe ratios are published in the "2024 Capital Market Assumptions Methodology - The building-block approach" as of July 16, 2024.
3. Dollar-cost averaging is an investment strategy where investors regularly invest a set amount over a certain period of time.

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Equities

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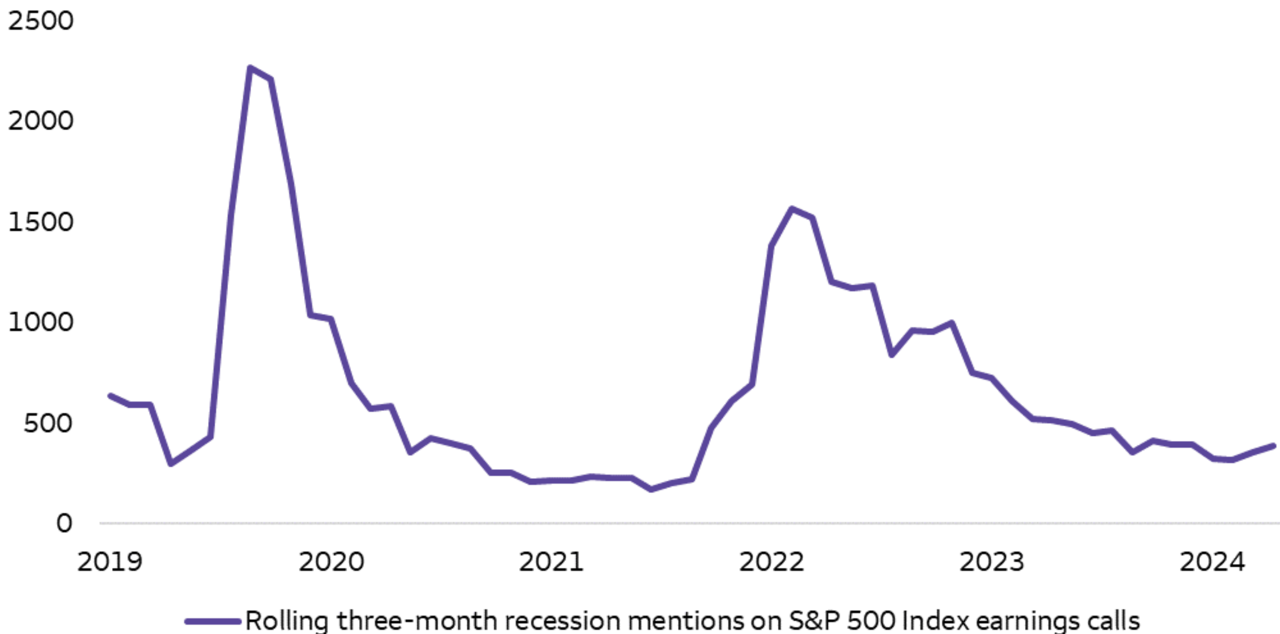
Corporate commentary supports economic soft landing

Markets have been incredibly volatile in recent months, with the S&P 500 Index falling from roughly 5670 to 5150 from July to August, rebounding back near 5650 by the end of August, falling once again to around 5400, and recently rebounding to all-time highs. These swings have been driven in large part by the tug of war between investors' recession fears and soft-landing hopes. There are also other factors at play including a slowing economy, evolving monetary policy, and the upcoming election. With this in mind, some have questioned whether an economic or earnings recession could be on the horizon.

In our view, the economy will avoid a recession and instead experience a mild slowdown in the coming months before rebounding through year-end 2025. This view has been supported by second-quarter corporate commentary, which shows mentions trending lower of recession, inflation, and supply chain issues for companies within the S&P 500 Index since 2022. Further, this has been reinforced by steady to slightly improving Bloomberg consensus earnings estimates for 2024 and 2025.

The current economic soft patch along with uncertainty around upcoming Fed policy and the elections lead us to emphasize quality (large caps over mid and small caps) in portfolios. We view the volatility in equities as an opportunity for investors to reallocate their portfolios to our favorable sectors (Communication Services, Energy, Financials, Industrials, and Materials) when markets approach recent lows and to trim overallocated areas (we are unfavorable on the Consumer Discretionary, Consumer Staples, Real Estate, and Utilities sectors) when markets approach recent highs.

Earnings call recession mentions show few hard-landing concerns



Sources: Bloomberg and Wells Fargo Investment Institute. Data from August 1, 2019 to August 30, 2024. Rolling three-month refers to the sum of the previous two months and the month being measured.

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Fixed Income

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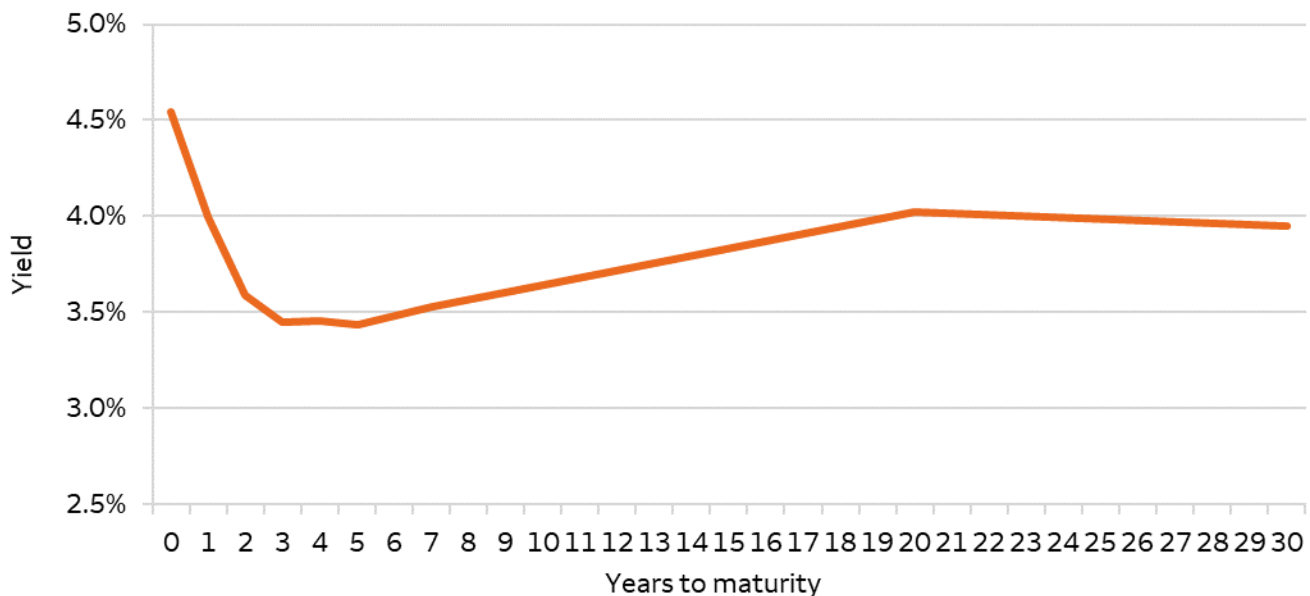
Where to position on the yield curve

Bond investors face difficult decisions when positioning across the yield curve. The Fed cut the federal funds rate on September 18, 2024, and additional cuts are expected at future meetings. Investors should expect yields in short-term investments to fall in tandem with the Fed's cuts in most cases — the relatively high yields that investors have enjoyed over the past couple of years in high-quality short-term investments will be decreasing. On the other hand, moving into long-dated maturities to lock in higher yields exposes investors to the potential for significant market price movements and potential losses in the event that the economy reaccelerates and longer-dated yields move higher next year, as we expect.

For much of this year, we have been advising investors to position for Fed rate cuts and to reallocate short-term fixed-income investments into other asset classes with better return profiles. Ideally, investors would be able to reallocate short-term fixed-income investments into equities or high-yield fixed income as we did on August 6, 2024, when we announced tactical changes to investment portfolios. However, since we announced those moves, both equities and high-yield fixed income have increased in price. Investors should consider taking advantage of any pullbacks in these asset classes to reposition overallocations to short-term fixed income.

U.S. Treasury yield curve



Sources: Bloomberg and Wells Fargo Investment Institute. Data as of September 17, 2024.

Investors may be deciding where to position on the interest-rate curve, and we currently have favorable guidance on U.S. Intermediate Term Taxable Fixed Income. Our unfavorable guidance recommendation on both U.S. Short Term and Long Term Taxable Fixed Income highlights our preference for bonds with maturities between three and seven years. We view these maturities as a nice compromise between the declining yields that will be experienced in shorter maturities and the potential price volatility in longer-dated maturities.

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Real Assets

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U.S. oil production may slow with near-breakeven prices

After being positive for most of 2024, year-to-date crude-oil returns recently slipped into the negative. As of September 16, 2024, the main global benchmark price (Brent) is down 5.6%, and the main U.S. benchmark price (West Texas Intermediate, or WTI) is lower by 2.2% on the year.

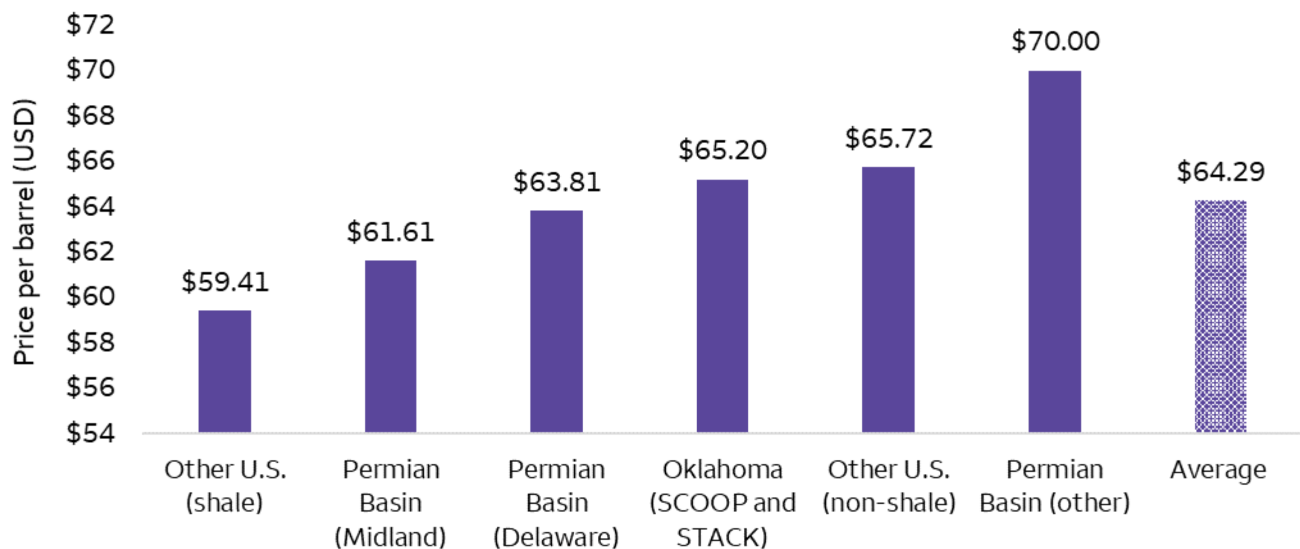
Crude-oil prices have given back this year's gains for a mix of demand and supply reasons. For starters, on the demand side, the global economy has been slowly softening. On the supply side of crude oil, markets have become worried that the world's two largest producers, OPEC+[4] and the U.S., will accelerate production growth.

While we understand the demand and supply fears, we suspect that they are already baked into crude-oil prices. While it is true that global crude-oil demand has been soft through much of 2024, the weakness does not appear to be accelerating. This is important because global liquidity has started to pick up, as evidenced by central banks beginning to cut interest rates.

On the supply side, we suspect that both OPEC+ and the U.S. are more likely to shrink production than grow it with crude oil prices in the $60s and $70s per barrel. OPEC+ has already said as much. A few weeks back, the group stated that it will not unwind planned production cuts that had been scheduled to begin in October 2024. For the U.S., we suspect that production growth will soon slow because the average cost to open a new shale well sits near $64 per barrel (see chart).

The bottom line is that crude oil prices have been soft in recent months, but we suspect that they will firm soon — on the supply side, the world's largest oil producers, OPEC+ and the U.S., have little incentive to grow production at today's prices.

Breakeven cost for new oil wells in the U.S.



Sources: Dallas Fed Energy Survey and Wells Fargo Investment Institute. Data is as of March 21, 2024. Executives from 87 exploration and production firms answered this question during the survey collection period (March 13, 2024 – March 21, 2024). SCOOP = South Central Oklahoma Oil Province. STACK = Sooner Trend Anadarko Canadian Kingfisher. USD = U.S. dollar.

4. Organization of the Petroleum Exporting Countries and their allies.

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Alternatives

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Global Portfolio and Investment Strategist

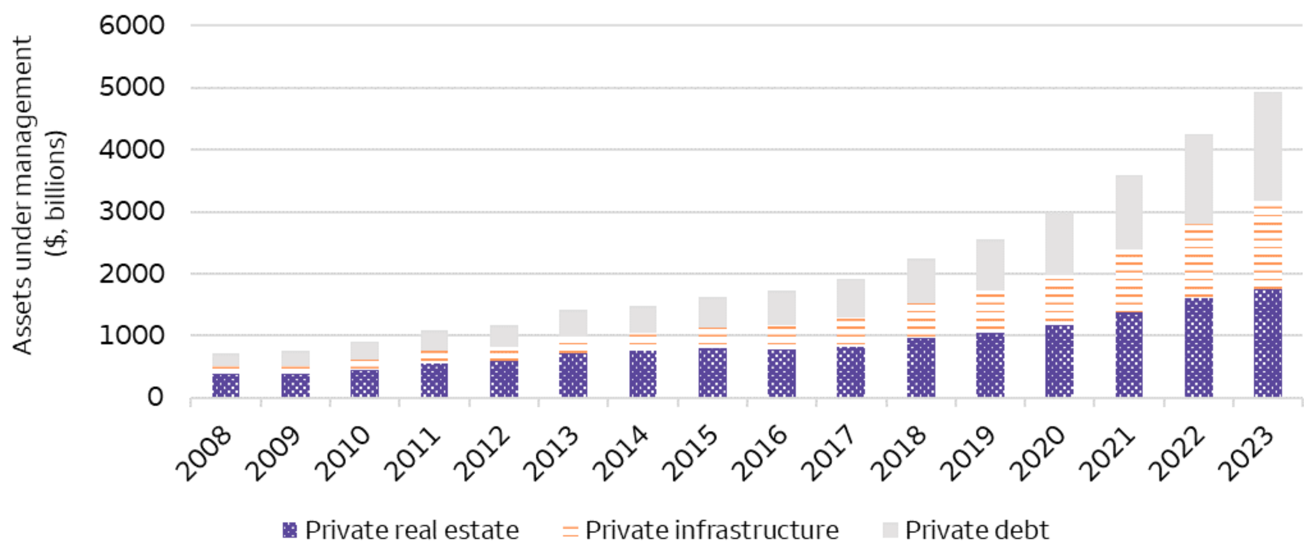
Where to find income in private markets?

For qualified investors with a need to cover ongoing expenses, private markets may offer strategies that can generate differentiated and attractive income. These income strategies, including Direct Lending, Core Private Infrastructure and Core Private Real Estate, share similarities such as modest standard deviations in returns and low leverage. That said, investors should consider the desirable level of exposure to underlying assets and macroeconomic sensitivities when choosing a suitable income strategy.

- The Core Private Real Estate strategy often invests in high-quality, fully occupied properties in prime locations, where investors receive income through recurring-rental cash flows. Investors also hold an equity position in the underlying real estate, and its value can be significantly influenced by changes in the macroeconomic outlook, interest-rate conditions, and demographic trends.
- Direct Lending is a Private Debt strategy in which the loan is typically considered senior to other claims against the borrowing company and is secured by the borrower. Further, unlike public corporate bonds, direct-lending loans often have a floating-rate structure, so the asset value is generally less affected by interest-rate changes.
- Infrastructure assets provide essential services to society such as roads, airports, electric power grids, and renewable energy generation. These services typically exhibit inelastic demand and are often regulated by government agencies. As a result, the value of infrastructure assets is relatively stable, and the income stream is insulated from economic downturns and inflation changes.

Given the attractive income generated, these strategies have experienced significant growth in recent years (chart below). Another positive development is that a greater number of these income strategies are available in newer semi-liquid structures that provide improved accessibility, regular liquidity, and simplified tax reporting.

Private real-asset and debt strategies have seen considerable growth over the past 15 years



Sources: Preqin and Wells Fargo Investment Institute. Data as of December 31, 2023. Assets under management is calculated based on Preqin's database and definition.

Alternative investments, such as hedge funds, private equity, private debt and private real estate funds are not appropriate for all investors and are only open to "accredited" or "qualified" investors within the meaning of U.S. securities laws.

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Tactical guidance*

Cash Alternatives and Fixed Income

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Long Term Taxable Fixed Income U.S. Short Term Taxable Fixed Income	Cash Alternatives Developed Market Ex-U.S. Fixed Income Emerging Market Fixed Income High Yield Taxable Fixed Income	U.S. Intermediate Term Taxable Fixed Income	

Equities

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	Emerging Market Equities	Developed Market Ex-U.S. Equities U.S. Mid Cap Equities U.S. Small Cap Equities	U.S. Large Cap Equities	

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Private Real Estate	Commodities	

Alternative Investments**

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Hedge Funds—Event Driven Hedge Funds—Equity Hedge Private Equity Private Debt	Hedge Funds—Relative Value Hedge Funds—Macro	

Source: Wells Fargo Investment Institute, September 23, 2024.

*Tactical horizon is 6-18 months

**Alternative investments are not appropriate for all investors. They are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. Please see end of report for important definitions and disclosures.

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Risk considerations

Diversification cannot eliminate the risk of fluctuating prices and uncertain returns.

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. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **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. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. Municipal bonds offer interest payments exempt from federal taxes, and potentially state and local income taxes. **Municipal bonds** are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Cash alternatives typically offer lower rates of return than longer-term equity or fixed-income securities and provide a level of liquidity and price stability generally not available to these investments. Some examples of cash alternatives include: Bank certificates of deposit; bank money market accounts; bankers' acceptances, federal agency short-term securities, money market mutual funds, Treasury bills, ultra-short bond mutual funds or exchange-traded funds and variable rate demand notes. Each type of cash alternatives has advantages and disadvantages which should be discussed with your financial advisor before investing.

In addition to the risks associated with investment in debt securities, a fund's investments in mortgage-backed securities will be subject to prepayment, extension and call risks. Changes in prepayments may significantly affect yield, average life and expected maturity. Extension risk is the risk that rising interest rates will slow the rate at which mortgages are prepaid. Call risk is the risk that If called prior to maturity, similar yielding investments may not be available for the Fund to purchase. These risks may be heightened for longer maturity and duration securities.

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. **Communication Services** companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the Communication Services sector may also be affected by rapid technology changes, pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. Risks associated with the **Consumer Discretionary** sector include, among others, apparel price deflation due to low-cost entries, high inventory levels and pressure from e-commerce players, reduction in traditional advertising dollars, increasing household debt levels that could limit consumer appetite for discretionary purchases, declining consumer acceptance of new product introductions, and geopolitical uncertainty that could affect consumer sentiment. **Consumer Staples** industries can be significantly affected by competitive pricing particularly with respect to the growth of low-cost emerging market production, government regulation, the performance of the overall economy, interest rates, and consumer confidence. 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. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. 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. **Real estate** investments have special risks, including possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions. **Utilities** are sensitive to changes in interest rates, and the securities within the sector can be volatile and may underperform in a slow economy.

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and

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management risks. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

Definitions

An index is unmanaged and not available for direct investment.

Bloomberg U.S. Treasury Bills (1-3 Month) Index is representative of money markets.

Bloomberg U.S. Aggregate Bond Index is composed of the Bloomberg U.S. Government/Credit Index and the Bloomberg U.S. Mortgage-Backed Securities Index and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities.

Bloomberg U.S. Corporate High-Yield Bond Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB= or below. Included issues must have at least one year until final maturity.

Bloomberg Commodity Index is a broadly diversified index of commodity futures on 20 physical commodities, subdivided into energy, U.S. agriculture, livestock, precious metals, and industrial metals sectors. Commodity weights are derived in a manner that attempts to fairly represent the importance of a diversified group of commodities to the world economy.

JPM EMBI Global Index is a U.S. dollar-denominated, investible, market cap-weighted index representing a broad universe of emerging market sovereign and quasi-sovereign debt. While products in the asset class have become more diverse, focusing on both local currency and corporate issuance, there is currently no widely accepted aggregate index reflecting the broader opportunity set available, although the asset class is evolving. By using the same index provider as the one used in the developed-market bonds asset class, there is consistent categorization of countries among developed international bonds (ex. U.S.) and emerging market bonds.

MSCI EAFE Index is a free-float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets (EM) Index is a free-float-adjusted market-capitalization-weighted index designed to measure equity market performance of emerging markets.

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Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25% of the total market capitalization of the Russell 1000® Index.

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.

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