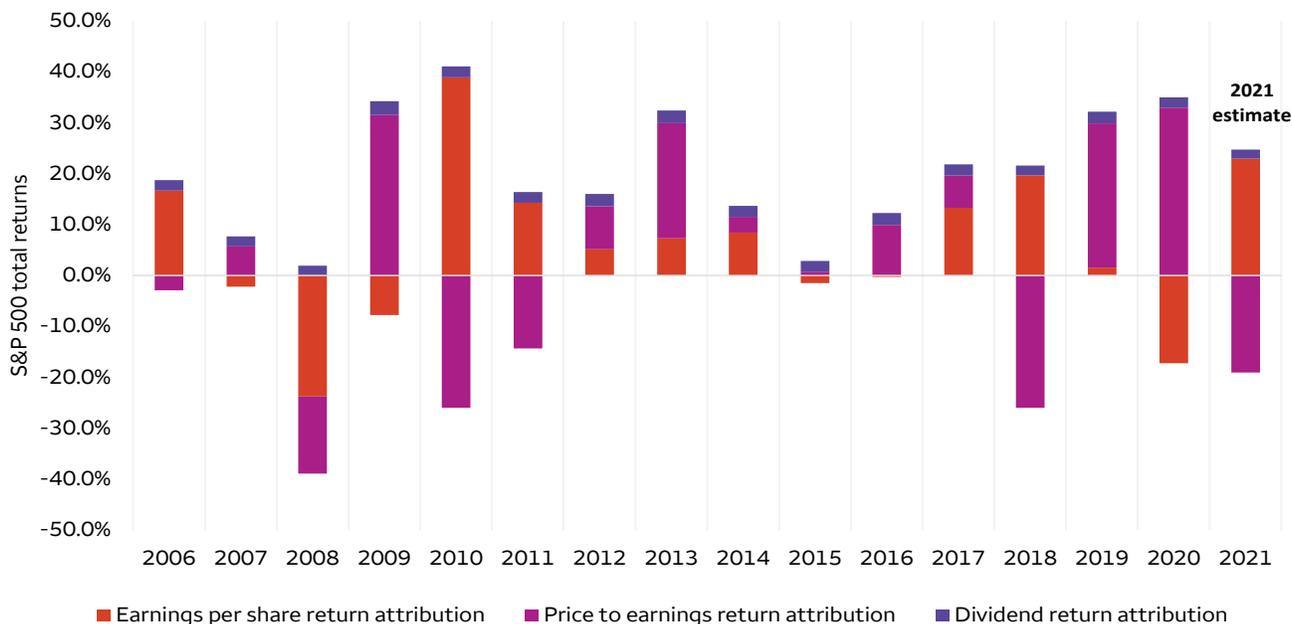


## Stocks’ hopes for 2021 may ride on earnings rebound



Sources: Wells Fargo Investment Institute, Bloomberg. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** Forecasts and estimates are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

### Drivers of S&P 500 Index total returns since 2006 — including estimates for 2021

This chart shows S&P 500 Index total returns for the last 15 years with our estimates for 2021. Orange shading indicates the percentage of total return attributed to growth in earnings per share, magenta indicates return attributed to growth in valuation (price/earnings), and dark purple indicates return attributed to dividend payouts.

In 2020, quick action by global central banks to lower interest rates and increase market liquidity boosted price-to-earnings ratios even as the economic recession weighed on corporate earnings. We expect 2021 to be similar to 2010 with price-to-earnings ratios falling as earnings climb faster than prices.

#### What it may mean for investors

Our earnings-per-share target for the S&P 500 Index is \$175 — more than 30% higher than our 2020 estimate of \$130 per share — and our 2021 median year-end price target is 3,900. We believe strong profit growth and the continued relative advantage of earnings yields (earnings/price) to U.S. Treasury yields should be a tailwind for U.S. stocks.

**Global Equity Strategy Team**

This text was excerpted from the text is from *2021 Outlook: “Forging a path forward”* (December 2020)

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**Risk Considerations**

Forecasts and estimates 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.

**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 U.S. stock market. An index is unmanaged and not available for direct investment.

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