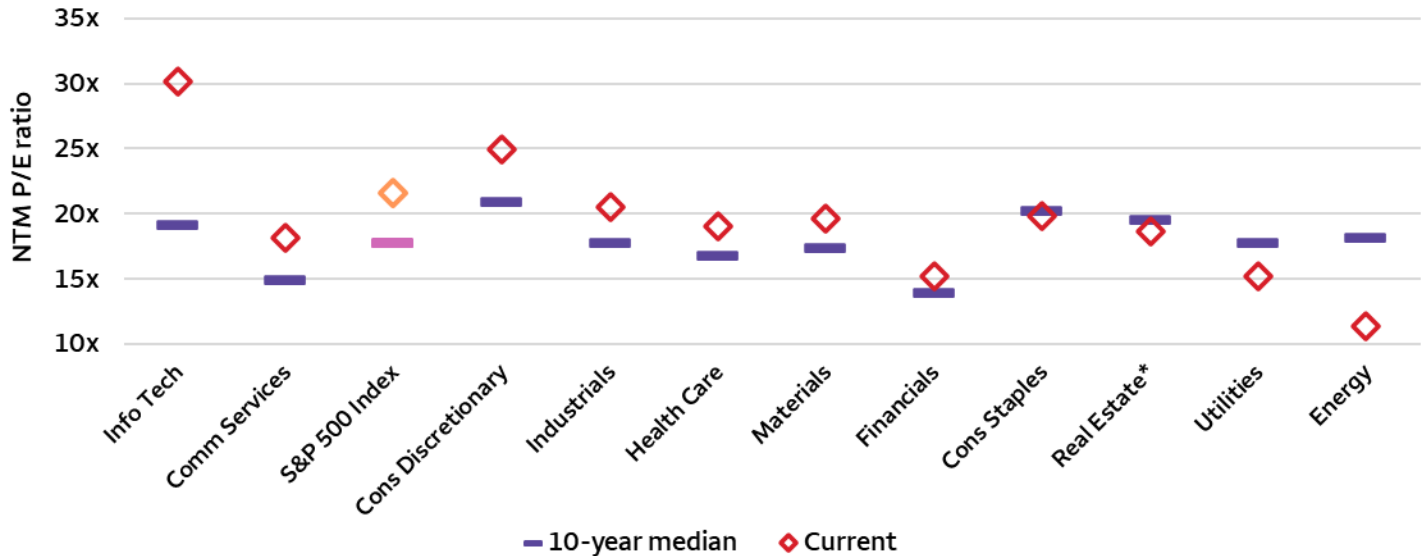


Chart of the Week

Weekly market analysis on key market indexes

February 27, 2024

Equity sector valuations compared to 10-year medians



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data: February 14, 2014 – February 14, 2024. NTM P/E = next-twelve-months price-to-earnings. *Real Estate readings are price to funds from operations and originate in 2016 (the inception date of the index). An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Information Technology meaningfully overvalued, Energy meaningfully undervalued

Stocks are not cheap, in our opinion, but you have to respect the momentum that has carried the S&P 500 Index to a level just above the top end of our 4,800 – 5,000 year-end 2024 target range. The equity asset class and sector that have led the charge to record highs, U.S. Large Cap Equities and the Information Technology (IT) sector, are among what we consider to be the highest-quality equity assets to own in the current environment.

While we want to own quality sectors like IT for the long term, we want to buy at a reasonable price. As shown in the chart, the sector appears meaningfully overvalued — as of February 14, it was trading at a next-twelve-month price-to-earnings ratio 57% higher than its 10-year median. Meanwhile, Energy was trading 37% below its 10-year median.

What it may mean for investors

Much of the IT sector’s rally has been based on the outlook for companies tied to artificial intelligence.¹ We see risks in overallocating to these highly valued equities today as the longer-term prospects and roadmaps to profitability remain unclear. We are focused on sectors exhibiting long-run quality characteristics like Health Care, Industrials, Materials, and Energy, which appear to represent a better value than Information Technology.

Scott Wren, Senior Global Market Strategist

Excerpted from *Market Commentary* (February 14)

1. “The ascent of generative AI — What investors should know,” Wells Fargo Investment Institute, September 8, 2023.

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

Risk Considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and 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.

Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 stocks generally considered representative of the U.S. stock market.

S&P 500 Communication Services Index comprises those companies included in the S&P 500 that are classified as members of the GICS® communication services sector.

S&P 500 Consumer Discretionary Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

S&P 500 Consumer Staples Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

S&P 500 Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

S&P 500 Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

S&P 500 Health Care Index comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

S&P 500 Industrials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

S&P 500 Information Technology Index comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

S&P 500 Real Estate Index comprises those companies included in the S&P 500 that are classified as members of the GICS Real Estate sector.

S&P 500 Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS utilities sector.

S&P 500 Materials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

An index is unmanaged and not available for direct investment.

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