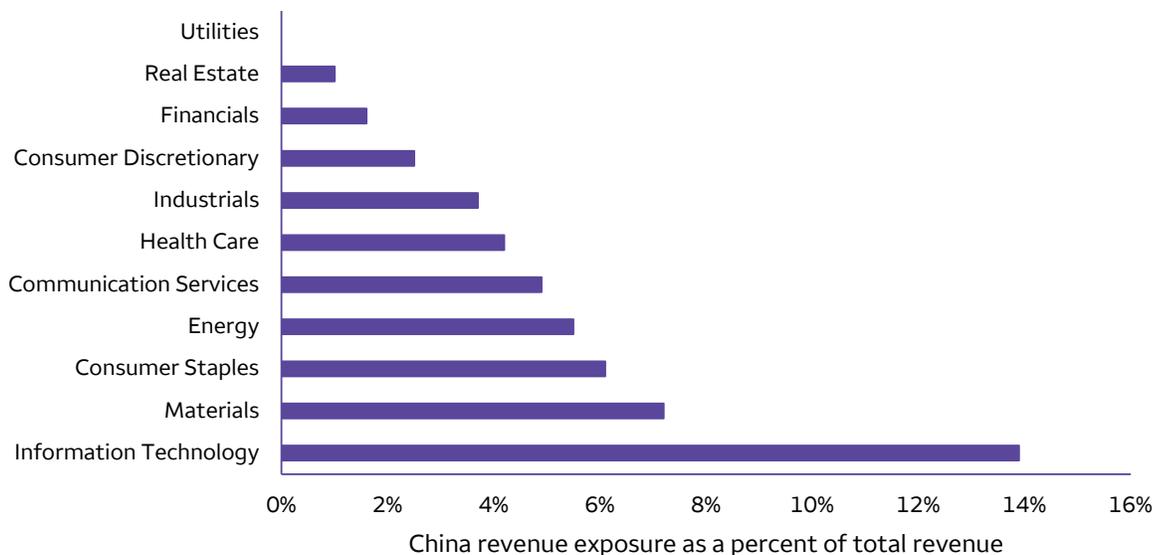


## U.S.-China trade — The sectors with the most at stake



Sources: FactSet and Wells Fargo Investment Institute, data as of February 28, 2021, based on companies' most recently released financial reporting.

### China revenue exposure by S&P 500 Index sector

Competition is likely to lead China and the U.S. toward further measures that limit each other's access to markets (by China) and to technology and capital (by the U.S.). However, we believe that talk of supply-chain reform and potential decoupling of the world's two largest economies is too simplistic. The symbiotic relationship is evolving, but we believe it runs deep enough to encourage accommodation by both sides.

The stakes in U.S.-China trade are particularly high for U.S. multinationals in the Information Technology (IT) sector, among the most exposed to China as its supplier of hardware and as a market for finished goods. As the chart shows, the 14% share of China-sourced revenue for multinationals in IT is double that of second-ranked Materials among the 11 sectors making up the S&P 500 Index.

#### What it may mean for investors

- We expect competition between the U.S. and China to intensify, but we believe that China's importance in the global supply chain and as a market for global multinationals provides the basis for continued connection with the U.S. and our allies.
- Our view is that trade relations with China, though strained, ultimately will endure. This supports our favorable view of the IT sector, the economically sensitive Industrials and Materials sectors, and U.S. Small Cap and Emerging Market equity asset classes.

**Gary Schlossberg**, *Global Strategist*; **Michelle Wan, CFA**, *Investment Strategy Analyst*

This chart was excerpted from the *Policy, Politics & Portfolios* report dated April 27, 2021; "U.S.-China trade a yet another crossroads."

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### Risks Considerations

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. **Technology** and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

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