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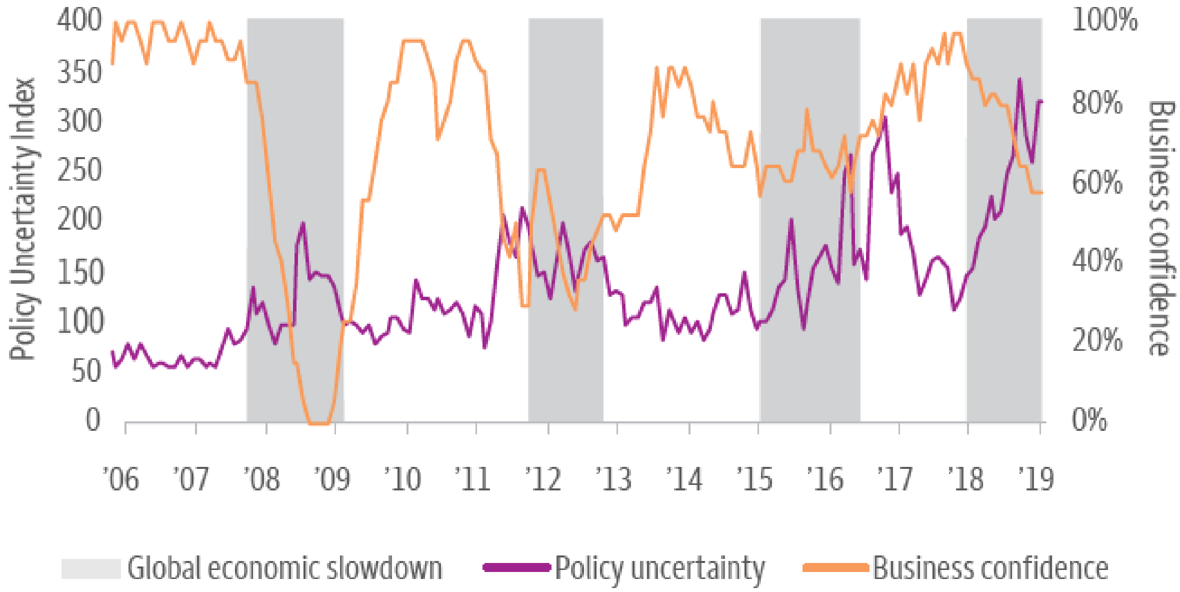
Chart of the Week

INVESTMENT TOPICS AND MARKET TRENDS USING CURRENT AND HISTORICAL ECONOMIC DATA

June 12, 2019

The Economy at Midyear—Rising Political Uncertainty



Sources: Wells Fargo Investment Institute; Markit; Bloomberg; and Baker, Bloom, and Davis. Monthly data from January 31, 2006, to April 30, 2019. Global economic slowdown periods defined by the Organisation for Economic Co-operation and Development (OECD). Policy uncertainty is represented by the Global Economic Policy Uncertainty Index produced by Baker, Bloom, and Davis. It measures changes in news coverage about policyrelated economic uncertainty, tax code expiration data, and economic forecaster disagreements. Business confidence measures the share of global manufacturing purchasing managers' indices (PMIs) in expansionary territory (above 50). A PMI is a measure of dominant trends in manufacturing and is considered a leading indicator of economic activity.

Rising political uncertainty tends to dampen business confidence

Our outlook for the second half of 2019 is for positive economic growth of varying strength around the world. An economic recession appears unlikely, and the U.S. and emerging economies probably will show stable growth. But European and Japanese economic growth seems comparatively weaker and may not stabilize until political uncertainties around Brexit and trade disputes fade.

Rising political uncertainties (purple line) since early 2018 have constrained economic confidence (orange line) and still seem to be the main economic risk. Fortunately, fiscal and monetary policymakers in the U.S., Europe, and China have added stimulus measures, and more global central banks are likely to cut interest rates. A U.S.-China trade agreement could help restore positive global trade growth, which could benefit Europe and Japan. However, business spending and global trade in materials and industrial goods are likely to remain constrained while the scope of that agreement are unclear.

What it may mean for investors

The second-half calendar is full of possible geopolitical stumbling blocks, consumer spending has downshifted, and business capital spending remains below expectations. While we believe the second half of 2019 does pose better growth momentum, we do not believe now is the time to turn either too aggressive or too conservative with portfolio positioning. Instead, we think now is a much better time for investors to realign their portfolios with their long-term goals, after several quarters of market volatility likely have disrupted that alignment.

This chart was excerpted from the Wells Fargo Investment Institute 2019 Midyear Outlook—"Eyes Forward: Opportunities and Obstacles" June 2019.

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.

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