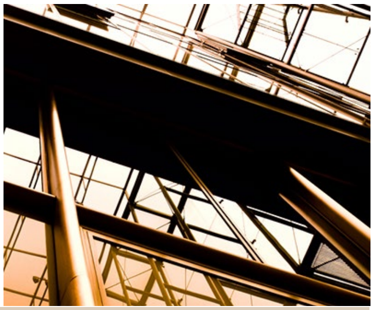

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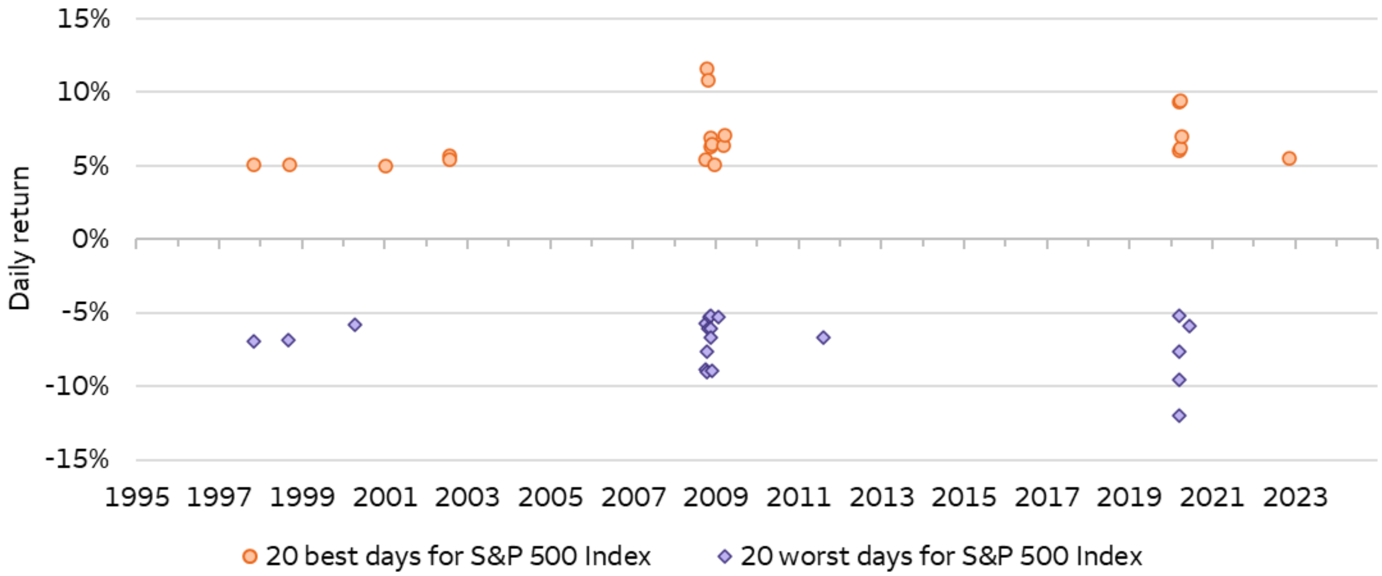
Investment Institute

Chart of the Week

Weekly market analysis on key market indexes **August 20, 2024**

Lessons from the market's best and worst days



Sources: Bloomberg and Wells Fargo Investment Institute. Data from August 14, 1994, to August 13, 2024. Analysis uses S&P 500 Index price returns. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Short-term volatility can cause significant fluctuations, but a longer-term perspective is needed

On Monday, August 5, the CBOE Volatility Index (VIX) surged to an intraday high of 65.73. For context, the VIX has only reached this level two times in the past 35 years (during the financial crisis and at the onset of the pandemic). Volatility has moderated since August 5, but it remains elevated compared to earlier this year. Given this backdrop, we see value in looking to past periods of volatility.

As the chart above shows, equity volatility is not unidirectional — the market's best and worst days have tended to happen together, often back-to-back amid a recession or bear market. This was born out in the most recent period of volatility, with the S&P 500 Index seeing its worst and best daily returns since 2022 on August 5 and 8, respectively. Further, our research suggests that missing only a handful of the best days can drastically reduce the long-term average return.

What it may mean for investors

Despite elevated volatility, we do not recommend abandoning or reducing equity exposure. We also do not advocate trying to time the market, but we do believe modest tactical shifts may help investors take advantage of short-term opportunities or mitigate short-term risks. To that end, we used the market volatility and pullback as an opportunity to adjust tactical guidance, reallocating from investment-grade fixed income into equities and high-yield fixed income.

Veronica Willis, Global Investment Strategist Excerpted from *Investment Strategy* (August 19)

Risk 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** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **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.

Definitions

CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

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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