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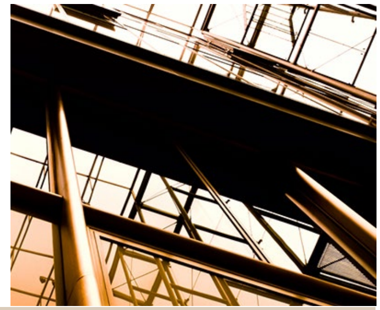
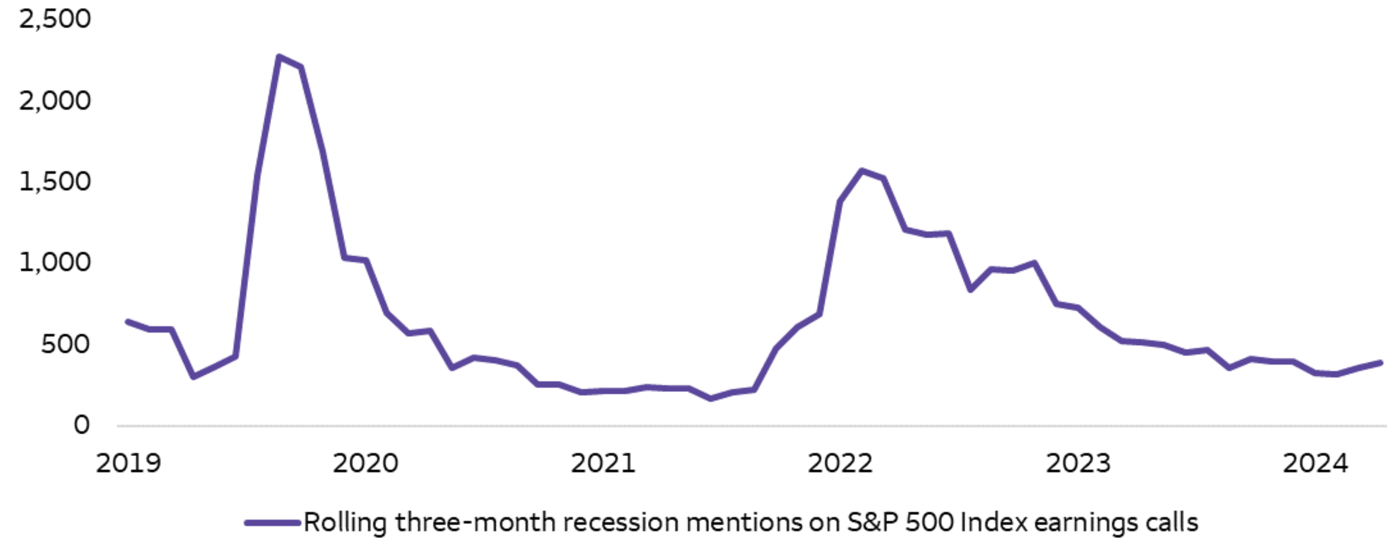
Investment Institute

# Chart of the Week



**Weekly analysis of key themes in markets** September 24, 2024

## Hard-landing concerns ebbing, but volatility may return




Sources: Bloomberg and Wells Fargo Investment Institute. Data from August 1, 2019 to August 30, 2024. Rolling three-month refers to the sum of the previous two months and the month being measured. An index is unmanaged and not available for direct investment.

### Corporate commentary and earnings growth for the second quarter supports economic soft landing

Markets have been incredibly volatile in recent months, driven in large part by the tug of war between investors' recession fears and soft-landing hopes. A slowing economy, evolving monetary policy, and upcoming elections have led some to question if an economic or earnings recession may be on the horizon. This is not, however, our expectation — we think the economy will instead see a mild slowdown in coming months before rebounding through year-end 2025.

As shown in the chart above, this expectation has been supported by second-quarter corporate commentary. Mentions of recession, inflation, and supply chain issues for companies within the S&P 500 Index have reverted back to pre-pandemic levels, and this has been reinforced by steady to slightly improving consensus earnings estimates for 2024 and 2025. All in all, we see the trends as supportive of an economic soft landing.

**What it may mean for investors**

Uncertainty remains despite ebbing hard-landing concerns. We would view related volatility as an opportunity for investors to reallocate their portfolios to our favorable sectors (Communications Services, Energy, Financials, Industrials, and Materials) when markets approach recent lows and to trim overallocated areas (we are unfavorable on the Consumer Discretionary, Consumer Staples, Real Estate, and Utilities sectors) when markets approach recent highs.

**Chris Haverland,** *Global Equity Strategist*
**Edward Lee,** *Investment Strategy Analyst*

Excerpted from *Investment Strategy* (September 23)

**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. **Communication services** companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues

**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 US stock market.

An index is unmanaged and not available for direct investment.

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