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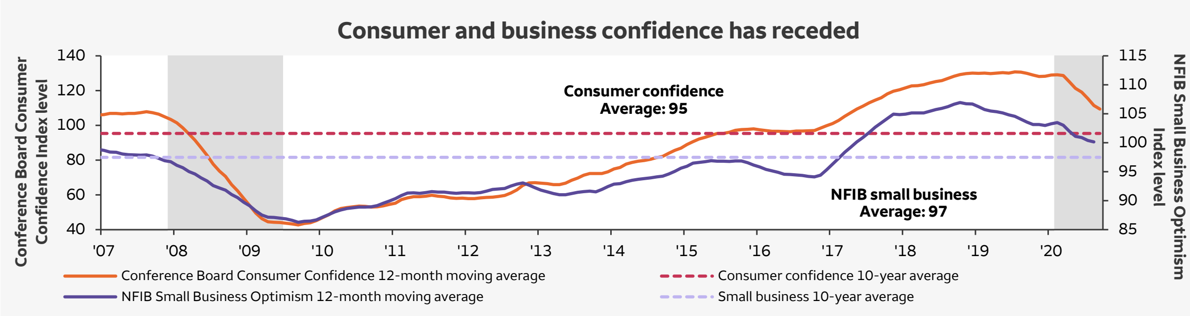
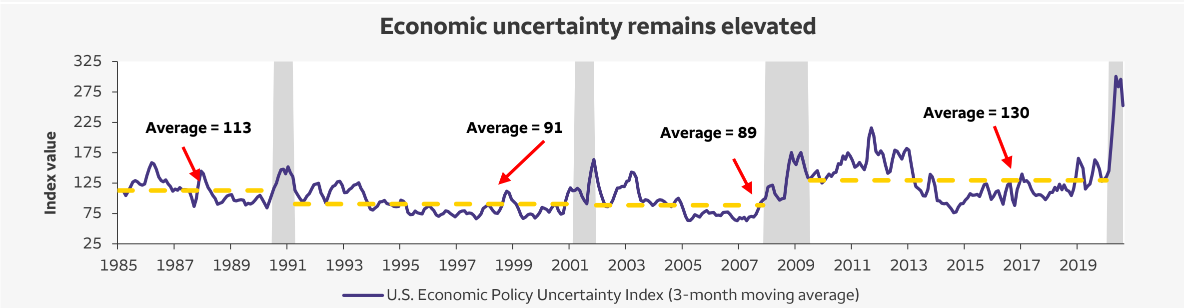
Investment Institute

Chart of the Week

Weekly market analysis on key market indexes — October 13, 2020

Can the consumer recover without a vaccine?





Sources: The Conference Board; National Federation of Independent Business (NFIB); Economic Policy Uncertainty Index—Baker, Bloom, and Davis; Bloomberg; and Wells Fargo Investment Institute, as of August 31, 2020. Consumer Confidence is as of September 30, 2020. Shaded area represents a U.S. economic recession. The Consumer Confidence Index (CCI) tracks sentiment among households or consumers. The NFIB Small Business Index tracks the state of the economy as it relates to businesses. An index is unmanaged and not available for direct investment.

Consumer and business confidence 12-month moving averages through September 30, 2020, and economic policy uncertainty 3-month moving average through August 31, 2020.

U.S. consumers are responsible for nearly 70% of all domestic economic activity. After the last 10 years, when business capital spending growth has been subdued, it is important to get a handle on the ability of the consumer to push the post-COVID recovery ahead in coming quarters and years.

The top chart shows consumer and business confidence as a 12-month moving average. While consumer confidence bounced to 101.8 in September, up from 86.3 in August, the moving average has trended downward, and confidence remains well below pre-pandemic levels. We believe further rebound of consumer confidence will depend on an effective vaccine to be widely available leading consumers to resume pre-pandemic activity level.

What it may mean for investors

We currently carry favorable ratings on the Consumer Discretionary and Communication Services sectors. Both are heavily oriented toward consumer spending and should see positives as the economy and employment environment improve. Our most favored sector continues to be Information Technology, and we are favorable on the Health Care sector.

Scott Wren, *Senior Global Market Strategist* This chart was excerpted from *Market Charts: Turning Data into Knowledge* (October 2020).

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.

Sector Risks

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. Risks associated with the **Consumer Discretionary** sector include, among others, apparel price deflation due to low-cost entries, high inventory levels and pressure from e-commerce players; reduction in traditional advertising dollars, increasing household debt levels that could limit consumer appetite for discretionary purchases, declining consumer acceptance of new product introductions, and geopolitical uncertainty that could affect consumer sentiment. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management.

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