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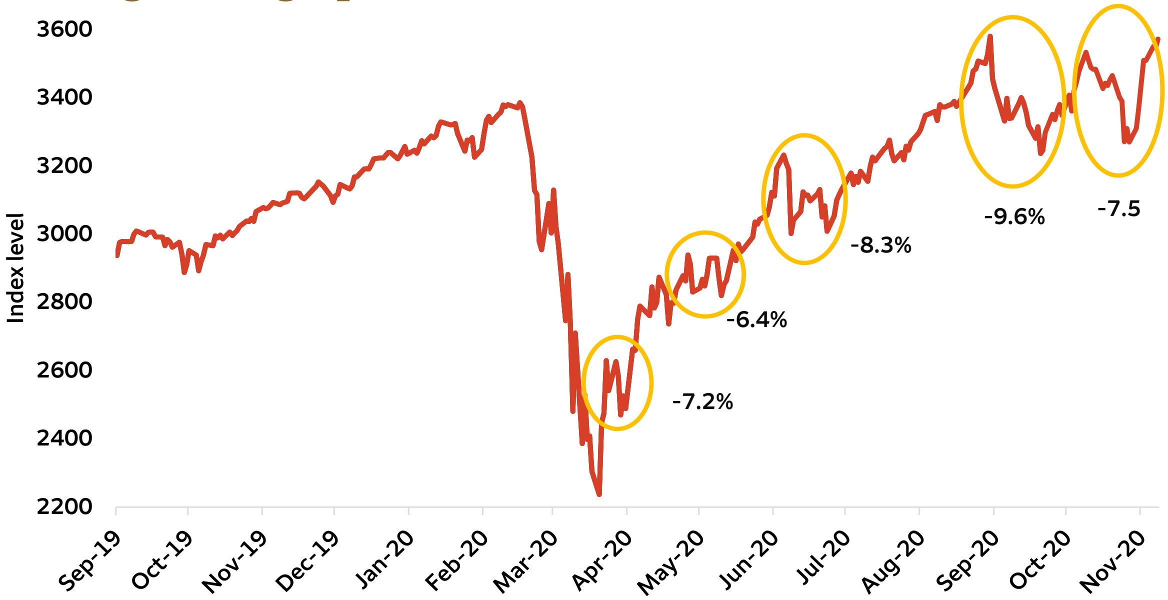
Investment Institute

Chart of the Week

Weekly market analysis on key market indexes | November 17, 2020

Pushing through pullbacks has been fruitful in 2020



Sources: Wells Fargo Investment Institute, Bloomberg, November 11, 2020. 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. **Past performance is no guarantee of future results.**

S&P 500 Index pullbacks since the March 2020 bottom

After reaching a record high on September 2, 2020 the S&P 500 Index declined nearly 10% through September 23. The index rallied in early October before declining 7.5% in the weeks before Election Day. Now the S&P 500 has come roaring back once again.

Modest pullbacks of 5% to 10% are typically called "garden variety" as they are commonplace in equity market investing. In fact, since 1928, the S&P 500 Index has averaged three to four of these kinds of downdrafts per year. The pre-election decline was the fifth of this magnitude since the bear market bottom on March 23. Although some pullbacks turn into full-blown corrections (down 10% to 20%), the majority have stayed on the modest side and ended just over a month after beginning.

What it may mean for investors

Garden-variety pullbacks can represent potential opportunities for investors to rebalance portfolios. As pullbacks occur, we believe it is prudent to stay invested and look for opportunities to redeploy cash into our favored equity asset classes (U.S. Large Cap and Mid Cap) and sectors (Communications Services, Consumer Discretionary, Health Care, and Information Technology).

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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**, 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. **Mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **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.

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