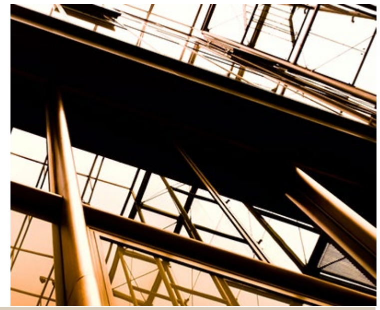
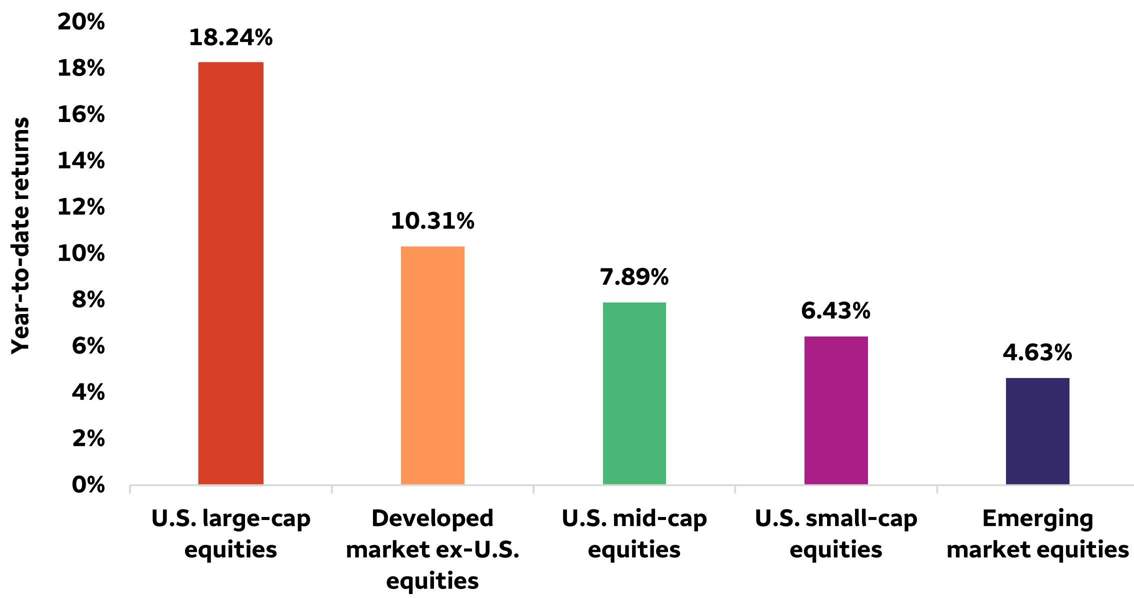
WELLS FARGO
Investment Institute

Chart of the Week



Weekly market analysis on key market indexes | **September 26, 2023**

A quality bias in 2023 hasn't meant sacrificing returns



Sources: Bloomberg and Wells Fargo Investment Institute. As of September 11, 2023. Year-to-date returns are measured as total returns of the benchmark indexes. U.S. large-cap equities are represented by the S&P 500 Index. Developed market ex-U.S. equities are represented by the MSCI EAFE Index. U.S. mid-cap equities are represented by the Russell Midcap Index. U.S. small-cap equities are represented by the Russell 2000 Index. Emerging-market equities are represented by the MSCI Emerging Markets Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

The higher-quality S&P 500 Index has outperformed in 2023

In 2023, we have favored high-quality equities over low-quality equities. This strategy has worked well in both up-trending and down-trending market environments this year.

The chart shows clear outperformance by high-quality U.S. Large Cap Equities (favorable rating) in comparison to lower-quality U.S. Small Cap Equities (most unfavorable rating) and Emerging Market Equities (unfavorable rating). Our work suggests that U.S. Large Cap Equities (represented by the S&P 500 Index) lead all other equity classes in quality characteristics such as profitability, earnings stability, and healthy balance sheets.

What it may mean for investors

We believe maintaining a quality bias in portfolios is appropriate given our view that an economic recession is likely in the coming quarters. This means continuing to favor U.S. Large Caps over Small Caps and Emerging Market Equities.

Chris Haverland, CFA, Global Equity Strategist

Excerpted from *Investment Strategy* (September 18, 2023)

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. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks.

Definitions

MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 Index.

Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

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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WFII ratings

Most favorable: WFII's highest conviction guidance that indicates a strong desire to overweight an asset class (or sector) within a portfolio. It also communicates that, over a tactical time frame, WFII views the asset class (or sector) as offering investors a very attractive risk/reward opportunity.

Favorable: Guidance that indicates a desire to overweight an asset class within a portfolio. It also communicates that, over a tactical time frame, WFII views the asset class (or sector) as providing investors with an attractive risk/reward opportunity.

Neutral: Guidance that indicates a desire to maintain an asset class near the long-term (strategic) allocation guidance within a portfolio. It also communicates that, over a tactical time frame, WFII views the asset class (or sector) as providing investors with an acceptable risk/reward opportunity.

Unfavorable: This WFII guidance level indicates a desire to underweight an asset class (or sector) within a portfolio. It also communicates that, over a tactical time frame, WFII does not view the asset class (or sector) as providing investors with an attractive risk/reward opportunity.

Most unfavorable: WFII's highest conviction guidance indicating a strong belief in underweighting an asset class within a portfolio. This also communicates that, over a tactical time frame, WFII views the asset class (or sector) as offering investors a very unattractive risk/reward opportunity.

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