WELLS FARGO
Investment Institute

April 7, 2025

Answering market volatility questions

Presenter: Paul Christopher, Head of Global Investment Strategy, Wells Fargo Investment Institute

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

How long do you expect markets to remain volatile?

The selling had been orderly, focused on technology and consumer discretionary stocks through April 1, but since April 2, selling has been chaotic and rapid. The nature of lingering uncertainty is that positive and negative developments can both come along and reinforce either apprehension or give false hope before market prices finally stop falling and reach a bottom. If the uncertainty about tariffs continues, corporate leaders may have to wait to learn how to allocate capital to their growing businesses.

The economy could then fall into recession during this time, and lower equity prices could follow. Or as we expect, the economy could continue to grow with help from lower interest rates and ample liquidity.

Is a recession inevitable if tariffs don't get retracted?

We would not present the issue of recession only if tariffs remain in place. One of the important points to remember is that we're about to see first-quarter earnings, and we'll be looking for two signals. First, we need to see how much guidance from the companies comes down for future earnings. And second, are there any early reads on cost increases from the reporting firms. From these reports, we'll see which companies are struggling more with tariff adjustments. The more companies that struggle, the greater chance of recession. We anticipate significant tariff impacts, and so we have brought our economic growth forecasts down from 2.5% to 1% — near recession level, but still positive.

What should investors do now?

For investors who have cash and want to take advantage of lower prices, even amid uncertainty, we would stick with quality in the portfolio. Among the U.S. markets, we favor large and mid-cap U.S. equities and select sectors — Information Technology, Communication Services, Financials, and Energy.

For fixed income, we are selective. We favor investment grade fixed income and would focus on corporate bonds and essential service municipal securities. As for fixed income maturities, the middle range of the maturity spectrum, let's say 3 to 7 years, we think offers the best value at this time.

For investors who have a long-term focus and want to remain cautious here, some cash buffer can make sense. Money market rates are a lot higher than they were the last time major uncertainty landed on financial markets. So, for now, rates above 3% are one solution for a cash buffer. As market prices settle, legging back into those markets, especially if underweight to strategic targets, remains a portfolio priority.

So, planning on where you want to take your portfolio next is an essential conversation to have with your financial advisor we strongly recommend.

Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. Investments in equity securities are generally more volatile than other types of securities. The prices of small and mid-cap company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions. Technology and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Investments in fixed-income securities are subject to interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

The opinions expressed reflect the judgement of the speaker as of the recording date and are subject to change without notice. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Past performance is no guarantee of future results. Additional information is available upon request.

Wells Fargo Investment Institute, Inc., is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company.

PM-10082026-7836144.1.1