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Video transcript

2021 Outlook

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2020 had many difficult and unpredictable twists and turns. A widespread global health pandemic, polarized politics, social unrest, unprecedented weather events, and the first economic recession and equity bear market in over a decade — all these challenged investors' fortitude and left them feeling a little exhausted at year's end.

Although these pressures may continue to have long-term implications, we see potential investment opportunities in the months ahead, as economic and health care conditions gradually improve, and the recovery gains momentum.

Our 2021 Outlook identifies where we believe investment opportunities may arise.

We anticipate moderate, but uneven global growth in 2021. As the U.S. overcomes its pandemic threat it will remain on the leading edge of the recovery, along with China.

Europe's economy should gain momentum after a winter surge in COVID infections. And among the emerging economies, China should lead the way, while some others may enjoy strong rebounds. But we think the Latin American economies will lag.

Even with the U.S. on the leading edge of the recovery, we expect further dollar declines, mainly against the euro, as the Federal Reserve adds more monetary stimulus.

In all, a gradually broadening global economic recovery and a weakening dollar should support global asset markets over the course of the year.

In terms of Equities, brightening economic conditions should mean an earnings rebound, and send equity prices to record highs.

We favor U.S. over international equities and the recommended move to quality that we talked about in 2020, carries over to 2021. Additionally, we see some potential opportunities in some traditional cyclical sectors—especially those with higher quality characteristics.

As some uncertainties ease in 2021, we expect moderately higher interest rates, but the economy's slow pace should prevent a return to historical rate levels.

These historically low rates should add to high demand for yield. We prefer credit and would use active managers in acquiring lower-quality investments. We also favor tax-advantaged municipal bonds, including high-yield municipals.

It's a mixed bag with real assets. We believe commodities may see a bounce as they experience a rebound in demand.

But, Real Estate Investment Trusts, or REITs, should face headwinds in the coming year as they cope with post-pandemic realities.

And finally, for alternative investments, we believe investors should gravitate toward hedge fund and private capital portfolios that are more focused on themes arising out of the COVID-19 crisis. Often sectors and industries facing the biggest challenges can support the best long-term investment opportunities.

When we think about portfolios, we believe it's better to be proactive not reactive. So, we favor

- Holding enough cash for short-term buying and selling, but not more
- Selectively increasing risk as the economy improves
- And diversifying income streams

For more ideas on how to be proactive in 2021, please download our Wells Fargo Investment Institute special report — ***2021 Outlook: Forging a Path Forward.***

Risks

Forecasts are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

Stocks 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. Small- and mid-cap stocks are generally more volatile, subject to greater risks and are less liquid than large company stocks. Bonds are subject to interest rate, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. High yield (junk) bonds have lower credit ratings and are subject to greater risk of default and greater principal risk. Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT). Preferreds securities have special risks associated with investing. Preferred securities are subject to interest rate and credit risks. Preferred securities are generally subordinated to bonds or other debt instruments in an issuer's capital structure, subjecting them to a greater risk of non-payment than more senior securities. In addition, the issue may be callable which may negatively impact the return of the security. The commodities markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Real estate has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic condition.

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.

Alternative investments, such as hedge funds and private capital, carry specific investor qualifications which can include high income and net-worth requirements as well as relatively high investment minimums. They are complex investment vehicles which generally have high costs and substantial risks. The high expenses often associated with these investments must be offset by trading profits and other income. They tend to be more volatile than other types of investments and present an increased risk of investment loss. There may also be a lack of transparency as to the underlying assets. Other risks may apply as well, depending on the specific investment product.

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