WELLS FARGO
Investment Institute

June 2022

2022 Midyear Outlook

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We believe that this economic expansion ultimately will prove to be one of the fastest and hottest in almost a century.

The Federal Reserve's aggressive tightening should help cool inflation, but that has a side effect of undermining borrowing, spending, and economic growth.

We believe that sticky inflation and the outlook for rising short-term interest rates will outweigh support from solid job growth and erode consumer spending in the months ahead.

And now, after the economic data are deteriorating faster, and we expect inflation and interest rate increases to go further, the U.S. economic outlook looks fragile. As we think about what faster, further, and fragile means, we conclude that the economy is now likely to have a mild contraction or recession late in 2022 and into early 2023. So far, the data indicate a recession that could be similar to that of 1990-1991, not 2008, and our outlook is for lower inflation and stronger economic growth later in 2023.

Recessions are a normal part of the business cycle, and typically patience is one of an investor's most valuable tools when a recession looks likely. For long-term investors, we favor working with one of our investment professionals to make a disciplined plan to put cash to work, because we believe financial markets are likely to turn higher as investors anticipate an economic recovery.

For shorter-term investors, patience may mean holding cash as needed for near-term expenses, or, for investors looking for opportunities, we favor patiently looking for quality. Our various preferences may help with that process.

We favor playing defense in fixed income portfolios. While interest rates continue to rise moderately — we prefer short-term maturities and municipal securities.

In equities, we expect earnings to weaken through 2023 as revenue growth moderates, production costs remain high, and margins contract from record levels. We favor high-quality, U.S. Large Cap and Mid Cap equities over international and U.S. small-cap stocks, and prefer sectors that have good cash flow and strong balance sheets, such as Information Technology, Health Care, and Energy.

In real assets, as the world struggles to balance energy, metals, and food demand against limited supply, we believe many commodity prices will remain near current levels through year end and rise in 2023.

We favor a broad-based allocation to commodities.

And finally, we believe late-cycle can be an opportune time to allocate to alternative investment strategies that typically have low correlation to equities and fixed-income. We favor Macro and Relative Value, but qualified investors may want to consider adding to Event Driven as we approach a recession.

For more on these recommendations and our top five portfolio ideas for the second half — download our Wells Fargo Investment Institute special report: *2022 Midyear Outlook: Faster, Further, and Fragile.*

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. **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. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **Municipal bonds** offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income. 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. Investing in **gold, silver or other precious metals** involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry.

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund strategies, such as Event Driven, Macro, and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

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