WELLS FARGO
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Our take on infrastructure and tax legislation

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As we enter the last quarter of 2021, events in Washington are creating uncertainty for financial markets and investors. Questions surrounding market expectations under various infrastructure and tax scenarios are consuming much of the financial media's airtime. This is likely to continue for at least the next handful of weeks. In addition, the debt ceiling is a hot topic and one that historically has created headwinds for the financial markets until the ceiling is raised.

Here is our take. In the end, we believe Congress will do three things:

1. Pass tax increases on corporations and high-earning individuals.
2. Pass twin bills allocating substantial funds to infrastructure projects — but we don't know the exact dollar yet.
3. Raise the debt ceiling.

It is likely that congressional leaders will use the reconciliation process to pass some version of the proposed legislation, although leaders may postpone decisions into December. The political uncertainties likely have not been priced into equity markets but are starting to show up in rising short-term yields. We expect earnings growth to remain positive but slow between now and year-end 2022, which will likely increase the chances for significant market volatility. It may become more uncomfortable to buy dips in equity markets. We strongly prefer a disciplined and incremental approach to putting cash to work — a dollar-cost-averaging approach — as equity markets continue higher but with more bumps.

Risk considerations

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

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.

A periodic investment plan such as dollar cost averaging does not assure a profit or protect against a loss in declining markets. Since such a strategy involves continuous investment, the investor should consider his or her ability to continue purchases through periods of low price levels.

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