WELLS FARGO
Investment Institute

September 2021

Beyond peak growth

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Growth and earnings are slowing, so is it time to reduce equities in favor of other asset classes? We say no — slowdowns have been a normal part of recoveries. Historically, as the economy exits a recession, growth surges, the rate of growth peaks, we exit the recovery phase, and start a new expansion.

If the recovery develops as we expect, here are five asset allocation ideas that we think are important for investors to consider:

1. Increase U.S. large- and small-cap equities relative to target allocations.
2. Within equities, we favor cyclicals and growth over defensive sectors.
3. Reduce allocations to short- and long-term U.S. investment-grade fixed income. Keep duration neutral.
4. Increase allocations to commodities and Equity Hedge strategies where appropriate.
5. Hold minimal cash in investment accounts.

We believe that any weakness in equity markets is buyable, and that investors should not get too defensive at this point in the economic cycle.

Risk considerations

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

All investing involves risks including the possible loss of principal. **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. **Growth** stocks may be more volatile than other stocks and there is no guarantee growth will be realized. Both growth and value types of investing tend to shift in and out of favor. **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. High yield (junk) bonds have lower credit ratings and are subject to greater risk of default and greater principal risk. 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.

Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. The use of derivatives may not be successful, resulting in losses, and the cost of such strategies may reduce returns and increase volatility. Investing in derivatives carries the risk of the underlying instrument as well as the derivative itself.

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