



# Market Commentary

Weekly perspective on current market sentiment

May 1, 2024



**Scott Wren**

Senior Global Market Strategist

Last week's S&P 500 Index: +2.7%

## Better than expected

### Key takeaways

- Over the course of the past 18 to 24 months, the U.S. economy has performed better than we had expected.
- Even if inflation ticks higher again as economic growth broadens, we expect broader opportunities in equities.

Over the course of the past 18 to 24 months, the U.S. economy has performed better than we had expected. The low rate of unemployment has remained intact, and consumer spending has helped lift economic growth. Large government deficits, a good portion of which has been targeted for infrastructure investments under 2021's Infrastructure Investment and Jobs Act, have also made a noticeable difference in economic performance. High-paying infrastructure-related jobs have been one example of why Americans have been able to continue to spend. While we expect the economy to continue to slow as last week's gross domestic product (GDP) report for the first quarter (+1.6%) illustrated, the probability of a recession has fallen considerably.

More accommodative financial conditions overall have remained largely in place as suggested by the latest reading of the Chicago Federal Reserve's (Fed's) Financial Conditions Index. This index is made up of over 100 different market indicators that broadly examine risk, leverage, and credit. Typically, as the Fed raises interest rates in an effort to slow the economy and ease inflationary pressures, this index will reflect less liquidity and accommodation in the financial markets. The Fed and the U.S. Treasury have used a variety of programs to keep cash flowing through the economy. The result has been that some segments of the economy that rely more on financial markets for cash — large companies that can issue their own bonds, notably — have had plenty of cash to expand. By contrast, others who rely on bank credit — low-income households, small businesses, and regional banks — have faced strains from limited credit.

Credit spreads usually widen as less accommodation leads to a slowing economy and increased risks for some borrowers. Credit spreads measure the difference in borrowing costs between U.S. Treasury securities (extremely low risk of not receiving principal and interest payments) and other credit-issuing borrowers. More risky borrowers fall into the "high yield" category while high-quality borrowers are considered "investment grade." In this cycle, credit spreads have actually narrowed and remain tighter (smaller) than has been the case in past cycles. This reflects investor confidence that companies will be able to make their interest and principal payments.

The better growth that we see resulting from easier financial conditions has allowed us to raise our GDP estimates this year to 2.5%. Next year, we continue to see accommodative conditions and a Fed that has modestly cut interest rates to lead to 2.1% growth. This better growth should also result in higher earnings for corporations.

While the inflationary decline has stalled in recent months, we expect to see disinflation as the economy slows further this year, which should spark a pickup in economic growth from those segments that will benefit from easier and cheaper bank credit. Even if inflation should tick higher again as economic growth broadens and becomes more consistent across segments, we expect an equal broadening of opportunities in equity markets.

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

### 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. **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. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

### Definitions

The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions. It is composed of up to 105 market indicators, measuring conditions in money markets, debt and equity markets, and the traditional and "shadow" banking systems.

An index is unmanaged and not available for direct investment.

### General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

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-10302025-6590172.1.1