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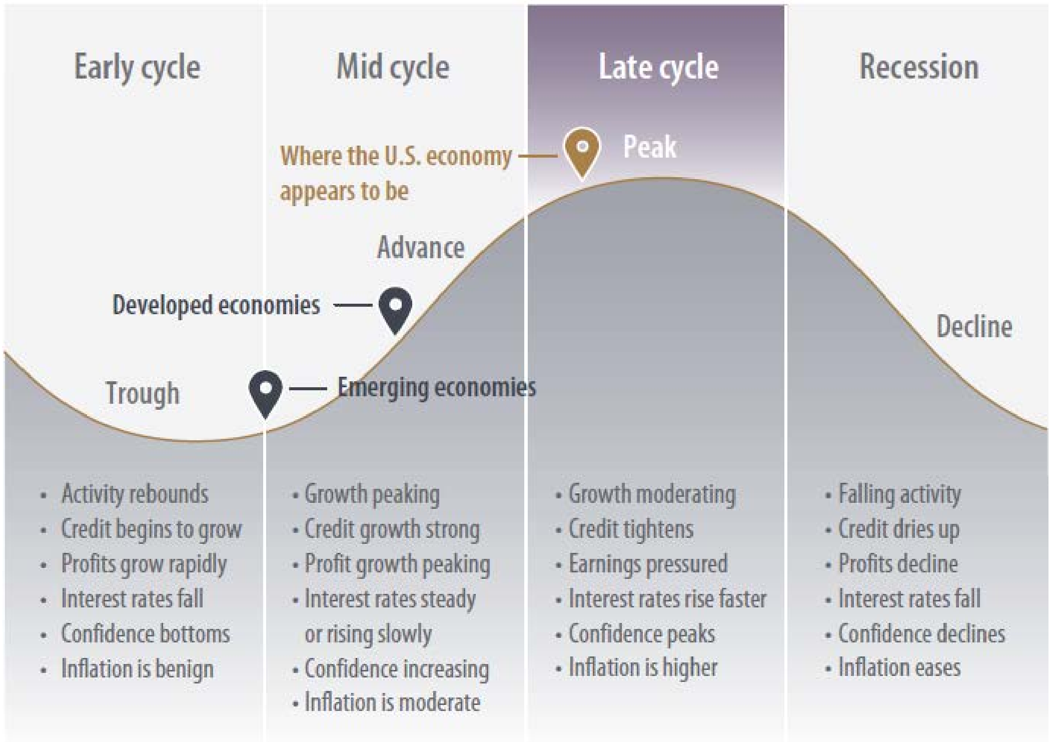
Chart of the Week

INVESTMENT TOPICS AND MARKET TRENDS USING CURRENT AND HISTORICAL ECONOMIC DATA

June 20, 2018

View at Midyear—Extended Recovery Benefits U.S. Stocks



Source: Wells Fargo Investment Institute, June 2018.

Where global economies appear to be in the business cycle

As we approach midyear, the economic expansion turns nine years old and is the second longest since modern records began in 1945. The further the expansion and the related equity bull market run, the more pointed the question, "How much longer can they go?"

In our view, the U.S. economy is in the final third of its expansion—but likely only at the beginning of that phase. As the chart shows, household and business spending and borrowing, along with inflation and interest rates, are important indicators to watch. These measures have risen from historically low levels since 2015 but likely do not threaten a recession in 2018 or even in early 2019. And the double shot of tax reform and fiscal spending, front-loaded to 2018 and 2019, could extend the U.S. recovery.

What it may mean for investors

We believe U.S. equity markets still could register some of the best returns of this cycle. We favor U.S. large- and mid-cap equities and cyclical U.S. sectors (Financials, Industrials and Consumer Discretionary) that should benefit the most from faster economic growth.

Global Investment Strategy Team, *2018 Midyear Outlook* *This chart was excerpted from the Midyear Outlook dated June 14, 2018.*

Risks 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. The prices of **mid-cap** company stocks are generally more volatile than large company stocks. They often involve higher risks because mid-cap companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions

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