2021 Midyear Equity Sector Outlook:

Investing in a Reopening World

Wells Fargo Advisors
Advice & Research

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Overview

The equity markets have turned in a solid first-half performance thus far in 2021. Leadership in the market has been driven primarily by cyclically-based, risk-on sectors (such as Industrials, Financials, and Energy) that we expect to stand to benefit from hopes of a strong reopening. Hopes of a vibrant restart for the U.S. economy are high given widespread distribution of effective COVID-19 vaccines even as consumer spending horsepower has been helped by stimulus and personal savings accumulation. Equity performance has been much better than its fixed income counterpart so far in 2021 as solid economic data and passage of a $2 trillion coronavirus stimulus package has raised inflation expectations and interest rates. Technology stocks lagged the broader market in the first-half mainly due to rising interest rates and a rotation into value stocks. It seems rising interest rates rattled the markets a bit in March especially in higher dividend yielding sectors and in high-flying tech names. Value stocks have outperformed growth of late which has been a rarity in recent times and overall market volatility has been relatively low. Massive stimulus packages from the Federal Reserve (Fed) and Congress continue to boost liquidity and overall market performance. Market breadth has also improved, which is typically a healthy development historically speaking, and a definitive change from the top-heavy performance moving the broader averages higher during much of 2020.

It's almost as if we're in a "Goldilocks" situation right now where interest rates are manageable, many corporations and consumers have de-levered, consumer demand is pent up, and businesses are investing into both cyclical and secular growth areas. We believe this dynamic is likely to produce strong earnings growth, amplified by year-over-year comparisons in the middle portion of 2021. The last point is critical since valuations have moved up relative to earnings so now we look for earnings to come through. We believe the setup for this is favorable given that many companies have cut costs and de-levered during the pandemic, allowing sales growth momentum to be translated into meaningful net income improvements. Our concerns looking ahead are potential for new strains of COVID, potential for higher personal and corporate tax rates, and inflation concerns driven mostly by the strength of the economic rebound. But an equity investor always confronts risks.

What to expect for the rest of 2021?

We believe the keys here are interest rates and how high (if at all) they rise with our expectations for strong economic growth and potential increases in inflation. If the reopening continues, cyclically-oriented sectors and stocks will likely continue to perform well through 2021. But we all know for the broader market to perform well the Information Technology sector will have to play its part given its heavy weighting in the S&P 500 Index. We believe a global economic recovery is key for multinational equities generally and the vaccine rollout and distribution needs to improve in international markets. Given generally higher equity prices over the past year, we look for mergers and acquisitions to gain momentum in many sectors potentially financed by a combination of equity and low interest rate debt.

When looking across sectors, we are hearing from many companies of increasing input cost pressure and supply chain constraints. Although this has historically been a typical "early cycle" phenomenon, this round has been unique. The pandemic resulted in significant portions of the global industrial supply chain being shuttered for several months in 2020. At the same time, governments provided extraordinary relief to consumers, often in the form of direct cash payments. These same consumers generally found it more difficult to purchase services to the same degree they normally would. Hence, with full pockets and restricted choices, many people purchased material goods. Even as manufacturers have ramped up, productivity has remained hampered by the pandemic. We expect both a supply response and a normalization of consumption patterns over time, but in the short term the "goods economy" is likely to experience pressure on costs.

The key variable to watch in our opinion is volume growth. Many companies that operate in the "goods economy" have significant fixed costs. Thus, incremental volume typically has a favorable impact on the bottom line even if input costs are increasing simultaneously. But the level of volume growth is important. Many companies in the Industrials and Materials sectors and semiconductor sub-industry could see strong growth in 2021 as we look for supply chains to recover and companies will likely need to invest to support higher levels of production. On the other hand, many companies in the Consumer Staples sector likely will be lapping difficult volume comparisons and could have greater difficulty expanding margins in the current environment. Generally speaking, we believe the earnings outlook for cyclicals is relatively stronger than that for defensives in the short to intermediate term.

We expect the economy to gradually reopen from the tight restrictions levied by the pandemic and we could foresee more of the service-oriented, consumer stocks garnering a larger allocation of investor dollars relative to the prior 12-month period. We would also keep in mind that the pandemic brought forward the importance of technology in our everyday lives. We believe owning large-cap tech stocks may serve as a defensive buffer in one's portfolio. We anticipate a successful reopening could bode well for banks through a combination of lower loan loss reserves and higher interest rates. Energy stocks could also be a beneficiary of a successful reopening.

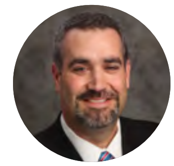
Valuations are currently quite high from a historical perspective. Looking simply at price-to-forward-earnings, multiples are currently near their highest levels of the past 20 years. Meanwhile, all eleven economic sectors of the S&P 500 trade at premiums to their 10-year averages on this same valuation metric, with the majority at or near the upper bound of medium and longer-term ranges. We see potential supports for this: low interest rates (and hence a favorable equity risk premium argument), stronger near-term economic and in turn earnings growth, and significant liquidity injections by fiscal and monetary authorities into both the real economy and financial markets. We note this merely to suggest that expectations in equity markets are currently high and that a significant portion of the potential benefits from the broader "reopening" have likely been priced into the market. We still see the current backdrop as favorable for equities, particularly for quality cyclicals, but we do believe investors should remain disciplined with an eye toward long-term portfolio construction.

Despite changing circumstances over time, basic investing principles never go out of style. These include proper diversification, focusing on high quality investments and seeking out rising income stories given the relatively low level of interest rates. We believe diversification is appropriate in the current environment and we suggest investors consider a portfolio of large-cap tech stocks, cyclicals, and dividend paying equities.

Communication Services

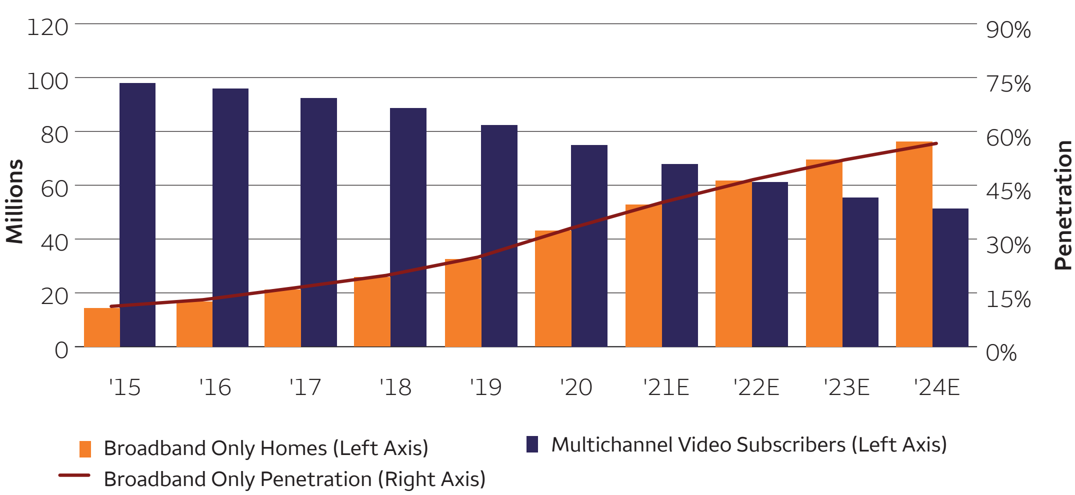
Sector drivers/themes

Several secular themes have developed over the years, including cable television cord-cutting, heightened anti-trust threats on big tech, expansion of the fifth-generation wireless network (5G), and an evolving gaming industry. The shift toward streaming was amplified during the pandemic, as entertainment options were limited and people sheltered in place. Many U.S. households upgraded to faster broadband connectivity to keep pace with the increased data usage at home — a trend we believe will accelerate as cord-cutting gains momentum. More consumers are ditching their traditional linear video subscription in favor of streaming options, which generally offer greater viewing flexibility, convenience, with numerous free ad-supported options. We believe the environment should generally remain intact barring any unforeseen delays in vaccine distribution, economies start opening up, and we get to the other side of the pandemic.



Thomas Christopher
Equity Sector Analyst

Multichannel Video Subscribers Decline While Broadband Only Homes Rise



Source: Historical and estimated data from S&P Global Market Intelligence LLC, Wells Fargo Advisors. Estimated years are denoted with "E".

While traditional U.S. multichannel video subscriber losses have accelerated over the past few years, broadband penetration continues to rise. Nearly one-third of U.S. households do not have a traditional pay-tv subscription. The number of "broadband only" households should continue to grow, necessitated by the need for increased bandwidth on home networks.

Where to invest in 2021

For growth investors, we continue to favor the interactive media and services and entertainment sub-industries. These companies appear positioned to take advantage of the ongoing shifts in consumer behavior and the evolving structural changes happening within the industry — particularly where, when, and how users consume content. For income investors, we continue to favor the telecommunication services industry group, as these firms have offered generally stable and attractive dividends, and should benefit from the 5G upgrade cycle. The advertising sub-industry seems to have stabilized following a difficult 2020, highlighted by a resilient digital advertising market.

Many streaming platforms have launched over the past couple years, including premium and free ad-supported options. The space has become quite crowded and data indicates the average consumer subscribes to multiple streaming platforms, highlighted by the handful of premium streaming services. We feel that streaming platforms will need to distinguish themselves from the competition, likely through competitive pricing, cutting-edge content, and widespread distribution. While we do not believe it will be a winner take all environment, the separation between winners and losers should evolve. We believe the core streaming platforms, as well as a few specialized platforms, should be well positioned moving forward.

Separately, the rollout of the 5G network remains a high priority. Carriers continue investing large amounts of capital to build out the wireless and broadband infrastructure. The recently completed government sponsored C-Band spectrum auction was rather successful, as ending net bids exceeded $81 billion. The two largest wireless carriers accounted for nearly 85% of total winning bids. While the large amounts of capital spent during the auction could present near-term financial challenges, we believe the carriers should benefit long-term as they expand the 5G infrastructure. Further, the carriers should benefit from the recently unveiled infrastructure plan from the Biden administration as they expand infrastructure into underserved communicates and deploy the large swaths of recently acquired spectrum over the next few years.

Valuation

The Communication Services sector currently trades at 22.0x the next twelve months (NTM) consensus earnings per share (EPS) estimate of $11.53; a premium to the sector's average five-year historical valuation of 16.9x. Relative to the S&P 500, the Communication Services sector is trading at 1.0x times relative to its historical level of 0.9x. Historical valuations are skewed and not directly comparable due to the fact that only the Telecommunications industry is accounted for prior to September 21, 2018.

Risks

The way people communicate and consume data is continuously evolving, which could lead to disruption among incumbent business models. Within the telecom, interactive media, and cable industries, cord cutting is weighing on traditional TV services and affecting how media firms approach customers. Telecom companies are subject to extensive regulation, and an adverse regulatory environment could possibly hinder innovation while adding heightened levels of uncertainty and risk.

Favorable

- Integrated Telecom Services
- Interactive Home Entertainment
- Interactive Media and Services
- Movies and Entertainment

Neutral

- Advertising
- Broadcasting
- Cable and Satellite
- Wireless Telecom Services

Unfavorable

- Alternative Carriers
- Publishing

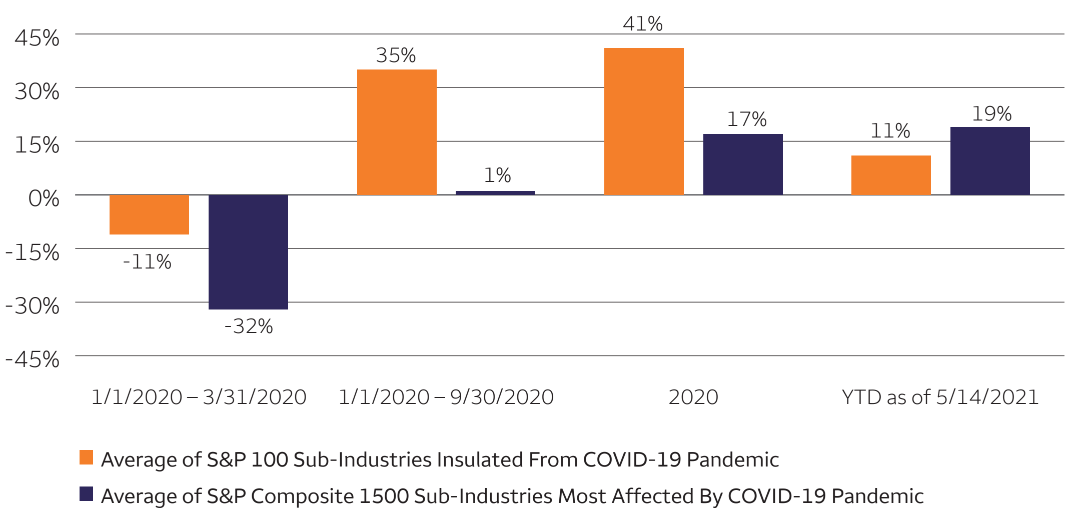
Consumer Discretionary

Sector drivers/themes

What a difference a few months makes in the eyes of consumers when vaccines appear to be effective combined with large U.S. stimulus programs. Exiting 2020, consumers felt the weight of the world as the pandemic lockdown continued impacting livelihoods with no end in sight. Now just six months later, the economy is reopening, mask-mandates are being lifted, and stimulus money is being spent almost religiously. Under this setting, we see those sectors within the Consumer Discretionary space that were hurt the worst during the peak of the pandemic and are deemed "reopening" plays should fare well over the next several quarters. While we see this shift occurring over a short-time period, we still remain steadfast with our outlook that the sub-industries that were strong performers pre-pandemic will likely be the strongest after this reopening phase.

Brian Postol
Equity Sector Analyst

Performance of Retail Sub-Industries



Source: FactSet, Wells Fargo Advisors. Data through 5/14/2021. **Past performance is no guarantee of future results**. An index is unmanaged and not available for direct investment. S&P 100 sub-industries insulated from COVID-19 pandemic include: internet & direct marketing retail, multiline retail, specialty retail, and food & staples retailing. The companies in this group generally are large and have scalable e-commerce platforms. S&P Composite 1500 sub-industries most affected by COVID-19 pandemic include: distributors, hotels restaurants & leisure, leisure products, specialty retail, and textiles apparel & luxury goods. The companies in this group generally are smaller, do not have scalable e-commerce platforms, and rely on face-to-face interactions to generate sales. The S&P 100 measures large-cap company performance. It is made up of 100 blue chip companies across diverse industry groups. The S&P Composite 1500 is a broad index representing the large-cap, mid-cap, and small-cap segments of the U.S. equity market.

Progress against COVID-19 has led to optimism about the economic rebound and struggling sub-industries throughout 2020 turned in strong performances during the first half of 2021. At the same time, the corners of the markets that had been hot — in some cases for years — turned cold, which impacted relative performance within certain Consumer Discretionary sub-industries.

Where to invest in 2021

While the market is going through a rotation in and of itself — from high growth to value — we see a similar rotation occurring within the Consumer Discretionary sector for the balance of the year. Several key tailwinds in the foreseeable future could propel certain sub-industries that were left behind over the last several quarters going forward. To begin, many consumers now have more discretionary dollars to spend thanks to the latest round of stimulus aid. Adding to this would be the accelerating vaccine rollouts across the nation, which should help the economy reopen. Not only do consumers have discretionary funds, but they also have more avenues to spend it. As a result, it only makes sense investors would be looking for the best ways to play the reopening phase over the next few months.

Since the later part of calendar 2020, lower-quality Consumer Discretionary stocks have outpaced their secular growth counterparts and we see this shift continuing to play out in the face of a thawing of the pandemic economy. We anticipate the primary driver will be the direction of the year-over-year growth rate that we expect to occur between pandemic-winners and pandemic-losers (stocks that relatively outperformed and underperformed the Consumer Discretionary sector during the pandemic) over the course of the next few quarters. Unlike the pandemic-winners that we expect will be up against challenging comparisons and, most likely, will deliver decelerating growth rates over the coming quarters, the pandemic-losers may have better year-over-year comparisons and any foot traffic boost we believe should positively benefit top- and bottom-line growth rates. Historically, for consumer stocks, an accelerating growth rate results in expanding valuation multiples; while a decelerating trend has a contracting impact on multiples. It is our opinion, this will be relatively short-lived (maybe no longer than the rest of 2021), thereafter the market refocuses back on long-term secular growth. Therefore, we continue to favor internet & direct marketing retail, which was a strong sub-industry going into the pandemic, grew in importance throughout the pandemic, and we expect to exit the pandemic a healthier/stronger industry than most, if not all, consumer sub-industries. We also favor discounters, mass-merchants, and off-price retailers as we believe they will likely benefit disproportionately from the multiple government stimulus programs.

Valuation

The Consumer Discretionary sector currently trades at 33.4x the NTM consensus estimate of $41.84. The current price-to-earnings (P/E) ratio is above the five-year historical valuation of 25.2x. Relative to the S&P 500, the Consumer Discretionary sector is trading at 1.6x, above historical levels of 1.4x. Historical valuations are skewed by the fact that the Media and Digital Streaming & Internet Services industries left the Consumer Discretionary sector and moved into the Communication Services sector as of September 21, 2018.

Risks

A strong job market generally provides consumers more financial comfort and increased disposable income. Yet, rising wages can bring both headwinds and tailwinds. On one hand, higher wages are positive tailwinds for consumer spending. However, we anticipate sub-industries with a high labor component (Restaurants, Hotels/Resorts/Cruises, and Retail) will likely receive less incremental benefit given the increased operating expense impact on profits. Additionally, rising logistics, gas prices, and interest rates coupled with potentially lower federal tax refunds are headwinds to consumer spending trends.

Favorable

- Automotive Retail
- General Merchandise Stores
- Home Improvement Retail
- Internet Retail

Neutral

- Apparel, Accessories, and Luxury Goods
- Apparel Retail
- Footwear
- Restaurants

Unfavorable

- Automotive Manufacturers
- Casinos and Gaming
- Department Stores
- Hotels, Resorts, and Cruise Lines
- Leisure Products
- Motorcycle Manufacturers

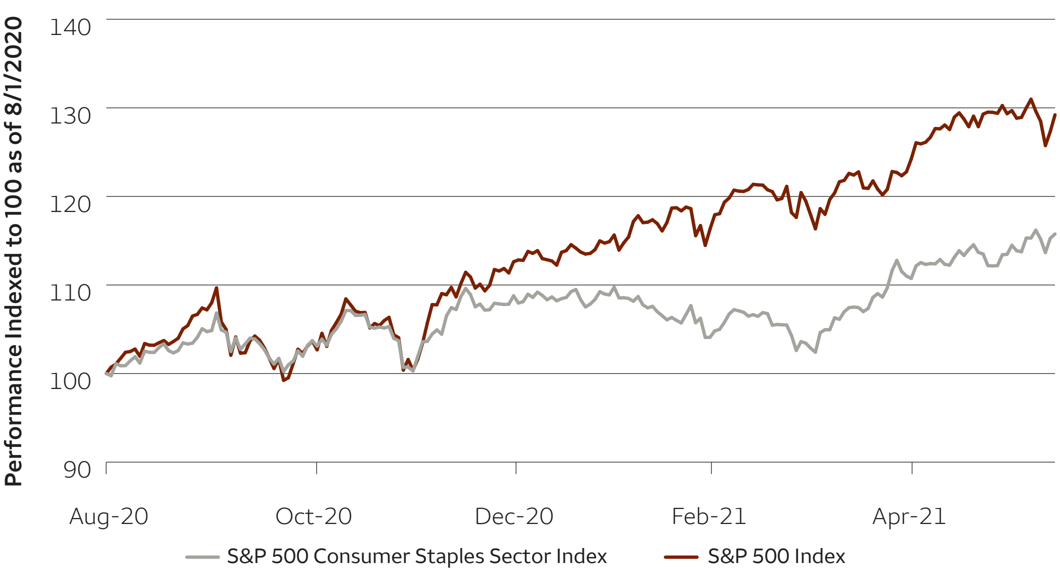
Consumer Staples

Sector drivers/themes

The Consumer Staples sector has seemingly been the forgotten group over the past year underperforming the broader markets. Progress on vaccine distribution combined with unprecedented amounts of monetary and fiscal stimulus have led to risk on assets winning at the expense of risk-off, more defensive sectors like Consumer Staples. More specifically, there are two big fundamental themes also negatively impacting the group. Year-over-year comparisons are brutally tough versus one year ago when consumers were stocking up on varied staples products due to the pandemic. In addition, rising input/commodity costs are presently hurting margins at many staples companies. Cost pressure is across the board in resins, packaging, and grains just to name a few. However, in good times and bad, long-term investors have come to appreciate the merits of the Consumer Staples sector which include relative earnings stability, diversified earnings growth in terms of products and geography, and finally the rising income/dividend stories Consumer Staples stocks can provide.

Jack Russo, CFA®
Equity Sector Analyst

Consumer Staples Sector Underperformed the S&P 500 through Mid-May 2021



Progress on vaccine distribution combined with unprecedented amounts of monetary and fiscal stimulus have led to “risk on” stocks outperforming “risk-off” defensive sectors like Consumer Staples.

Source: Morningstar Direct, Wells Fargo Advisors. Data through 5/14/2021. Performance data indexed to 100 starting on 8/1/2020. **Past performance is no guarantee of future results**. An index is unmanaged and not available for direct investment. The S&P 500 Sector Indices measure the performance of the widely-used Global Industry Classification Standard (GICS®) sectors and sub-industries. Each index comprises those companies included in the S&P 500 that are classified as members of their respective GICS® sectors. The S&P 500 is a market capitalization-weighted index generally considered representative of the U.S. stock market.

Where to invest in 2021

Broadly speaking, we remain cautious in our views across Consumer Staples. Tough year-over-year comparisons, rising commodity costs and historically in-line valuations keep us modest in our thoughts towards the group. We note too that the group has historically underperformed in a period of rising interest rates as we are seeing currently. However, the sector's defensive attributes should serve investors well in the case of increased market volatility which could be in store for the remainder of 2021.

In terms of sub-industry recommendations, we favor household products and beverages, are neutral on packaged food, and are unfavorable on tobacco. We favor sub-industries with stronger sales growth potential and whose products have pricing power especially now in this period of rising input costs. We believe brand power is also important in terms of the ability to raise prices. We believe the beverage sub-industry could benefit given its strong brands and emphasis in growing noncarbonated beverages (water, teas, sports drinks, and juices) that represent "healthier" choices. Household product companies should continue to see above average sales growth as demand for cleaning supplies remains a constant. Tobacco stocks have underperformed the Consumer Staples sector in the past 12 months due to the popularity of ESG (environmental, social and governance) investing and heightened Food and Drug Administration (FDA) focus on nicotine reduction. The packaged food sub-industry is challenged longer-term due to consumers' desire for healthier foods and rising grain costs that could impair margins in the near-term.

Favorable

- Beverages
- Household Products

Neutral

- Packaged Food

Unfavorable

- Tobacco Products

Valuation

The Consumer Staples sector currently trades at 21.1x the NTM consensus estimate of $34.54. The current P/E ratio is above the five-year historical valuation of 19.2x. Relative to the S&P 500, the Consumer Staples sector is trading at 1.0x, in slightly below historical levels of 1.1x.

Risks

Risks to companies within the Consumer Staples sector include intense competitive conditions, geopolitical risk, and rising interest rates causing additional dollar strength hurting multinationals reported sales and earnings. Other risks could include fluctuating commodity costs, labor cost pressures, and potential pricing compression from private label competition. Higher interest rates could make staples less valuable as bond proxies with their above average dividend yields.

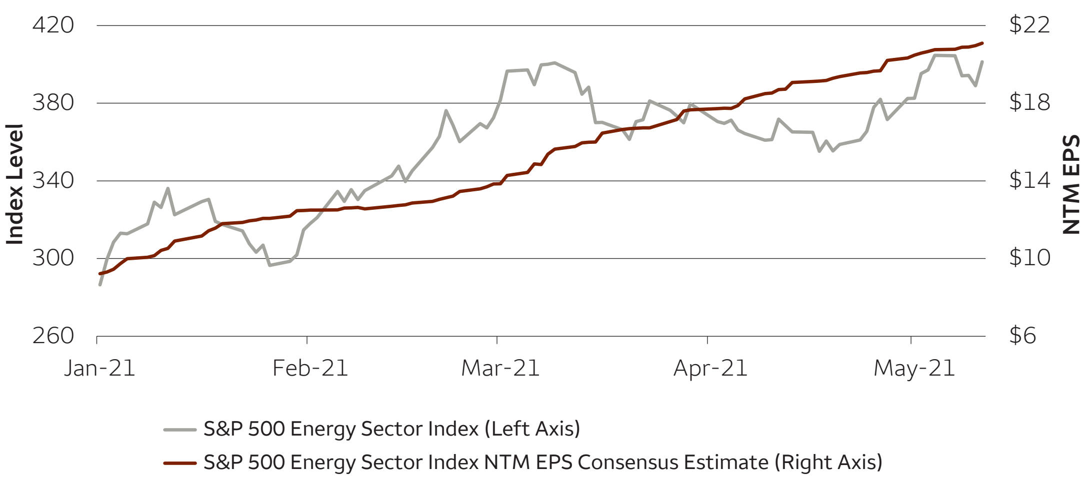
Energy

Sector drivers/themes

Energy has been the best performing sector in the S&P 500 Index year to date (as of 5/14/2021). Following years of underperformance including a drastic sell-off during the peak of pandemic-related restrictions last year, outperformance during the first half of 2021 has been driven by a continuation of improving optimism around a path towards more normalized demand for oil and refined products fueled by a largely successful rollout of the COVID-19 vaccine in the U.S. Stronger commodity prices have also helped to improve sentiment, as the OPEC+ (Organization of Petroleum Exporting Countries, plus allies) pledged a more conservative stance which eased some concerns around the potential for oil supply to return to the market too quickly. Looking ahead, we view the lagging international demand recovery (due to a slower vaccine rollout relative to the U.S.) and elevated levels of spare global oil production capacity as the greatest risks to the sector in the second half of the year.

Ian Mikkelsen, CFA®
Equity Sector Analyst

S&P 500 Energy Sector Index and Earnings Projections



Source: FactSet, Wells Fargo Advisors. Data through 5/14/2021. **Past performance is no guarantee of future results**. An index is unmanaged and not available for direct investment. The S&P 500 Sector Indices measure the performance of the widely-used Global Industry Classification Standard (GICS®) sectors and sub-industries. Each index comprises those companies included in the S&P 500 that are classified as members of their respective GICS® sectors. The S&P 500 is a market capitalization-weighted index generally considered representative of the U.S. stock market.

The rally in energy stocks year-to-date has coincided with steadily improving earnings estimates. The S&P 500 Energy Sector Index is now valued at a forward (next twelve months) price-to-earnings (P/E) ratio of 19.0x (as of 5/14/2021), compared to 31.4x at the beginning of the year.

Where to invest in 2021

We believe that the recent outperformance in Energy is justified by the improving balance in underlying fundamentals for crude oil and refined products, combined with a positive outlook around mobility trends on the demand side and thoughtful management on the supply side. In our view, the outlook for the Energy sector is more constructive than it has been in the recent past but significant uncertainties persist and most company debt levels remain elevated in the wake of the pandemic.

We continue to prefer the major integrated oil companies which we believe are positioned to navigate potential risks due to their scale, financial flexibility, and balanced exposure to improving fundamentals across the energy value chain. We have become more constructive on refiners given the improvement in domestic product inventories and refining margins, although our industry rating remains neutral given the continued pressure on demand for refined products internationally. We view midstream energy (including master limited partnerships/MLPs) as a maturing industry as most energy basins have sufficient infrastructure in place and the outlook for U.S. oil and gas production volumes remains pressured. Within midstream, we favor the larger diversified companies with investment grade balance sheets and stable cash flows, and we also maintain a preference for companies structured as corporations rather than MLPs. We remain unfavorable on oil field services companies and exploration and production companies, as we believe independent upstream producers are at a structural disadvantage to larger, well capitalized major oil companies despite their direct exposure to improved commodity prices.

Favorable

- Integrated Oil Companies
- Midstream (C-Corps)

Neutral

- Master Limited Partnerships
- Refiners

Unfavorable

- Exploration and Production (E&Ps)
- Oilfield Services

Valuation

The Energy sector is currently trading at price-to-book value (P/B) of 1.7x. The current P/B ratio is above the five-year average for the group of 1.6x. Relative to the S&P 500, the Energy sector has been trading at 0.4x P/B, below the five-year historical average of 0.5x.

Risks

Risks include commodity price exposure, the potential for structurally lower future commodity demand due to permanent COVID-19-related social changes, additional shelter in place restrictions from another round of COVID-19 infections, a slow pace of global economic recovery, a reescalation of global trade tensions, international competition from foreign government owned entities, misrepresentation of asset quality, regulatory risks at both the State and Federal government levels, and environmental concerns. Additionally, MLPs can be exposed to volumetric risk, commodity price exposure, potential customer concentration risks, and economically stranded assets.

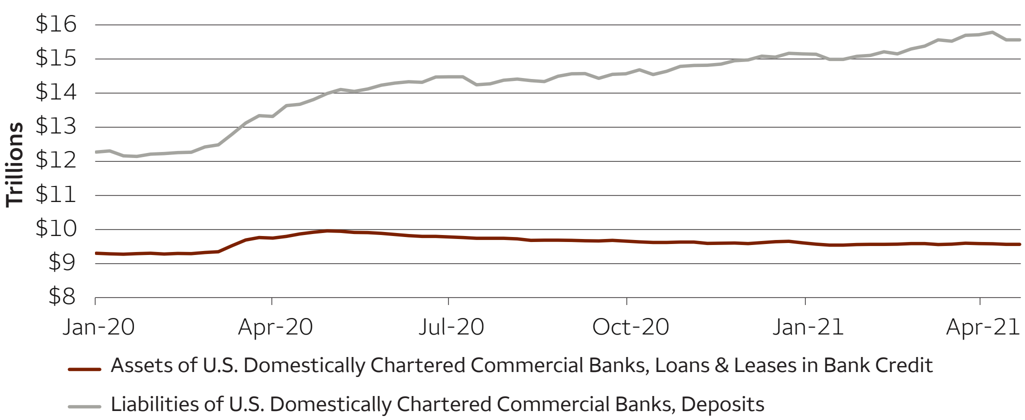
Financials

Sector drivers/themes

The Fed's actions in the past year kept credit flowing, hastened spread tightening, supported debt and equity markets, and lessened the pandemic's economic effects on consumers and businesses. With progress toward putting an end to the pandemic, a relatively quick increase in interest rates, and expectations of economic recovery, many Financials, especially banks, have rallied sharply. Interestingly though, for many banks, loan demand has been muted, as both commercial and consumer customers have built liquidity. The upshot of the higher liquidity, for lenders, has been a credit picture that has remained surprisingly resilient. As economic activity becomes less uneven, financial services companies are looking forward to a return to normality in lending and loan demand, and equally important, should be ready for a potential normalization in credit as well.

Michael Ruesy, CFA®
Equity Sector Analyst

Assets and Liabilities of Commercial Banks in the United States



Source: U.S. Federal Reserve, FactSet, Wells Fargo Advisors. Data through 4/30/2021.

Loan demand has barely budged in a year, with consumers and businesses continuing to place a premium on maintaining liquidity.

Where to invest in 2021

As optimism for improved banking conditions grows, we remain partial to the universal banks. Many, if not most, bank managements believe net interest income (NII) is bottoming, with leaders of the large universal banks expecting loan growth to return in the second half of this year. Importantly, the search for yield has brought out the competitive spirit in credit, with non-bank lenders, including private credit, looking to deploy funds too. A few regional banks, with good historical track records on credit, have noted, for example, the aggressive lending behavior of these private credit sources in some commercial real estate (CRE) markets. With hard-hitting competition perhaps a little more willing to stretch the underwriting in a rebounding economy, conservatively-minded banks may find loan growth elusive, and liquidity elevated for some time.

Considering these conditions, we believe investors should continue to look to upgrade the quality of the underwriters among their holdings in the sector, and especially in banking. Our view remains that the notion of a credit cycle is not rescinded, rather we see it as likely drawn-out, and believe that when loss cycles arrive, the worth of the underwriting is revealed. Over the long haul, we think stronger underwriters can produce competitive returns.

Along with the universal banks, we favor select property and casualty (P&C) insurers that look to underwrite for a profit, and note the favorable market conditions for many commercial lines. We would be quite selective in bargain-hunting among regional banks, preferring those with very strong records on credit.

Favorable

- Insurance Brokers
- Property and Casualty Insurance
- Universal Banks

Neutral

- Asset Management and Custody Banks
- Credit Card Issuers
- Financial Exchanges and Data
- Investment Banking and Brokerage
- Regional Banks

Unfavorable

- Business Development Companies
- Mortgage Real Estate Investment Trusts

Valuation

The Financials sector currently trades at 14.7x the NTM consensus EPS estimate of $42.78. The P/E ratio reflects a premium compared with the five-year historical valuation of 13.1x. Relative to the S&P 500, the Financials sector is trading at 0.7x which is in line with historical levels of 0.7x.

Risks

Key risks to the Financials sector include an end to the accommodating period for credit, deterioration in underwriting conditions, higher credit losses, tight lending spreads, financial leverage, loss of liquidity, changes in regulation, and weak asset or capital markets. Some firms, which are dependent on external financing, may not be able to access the capital markets on favorable terms, or at all.

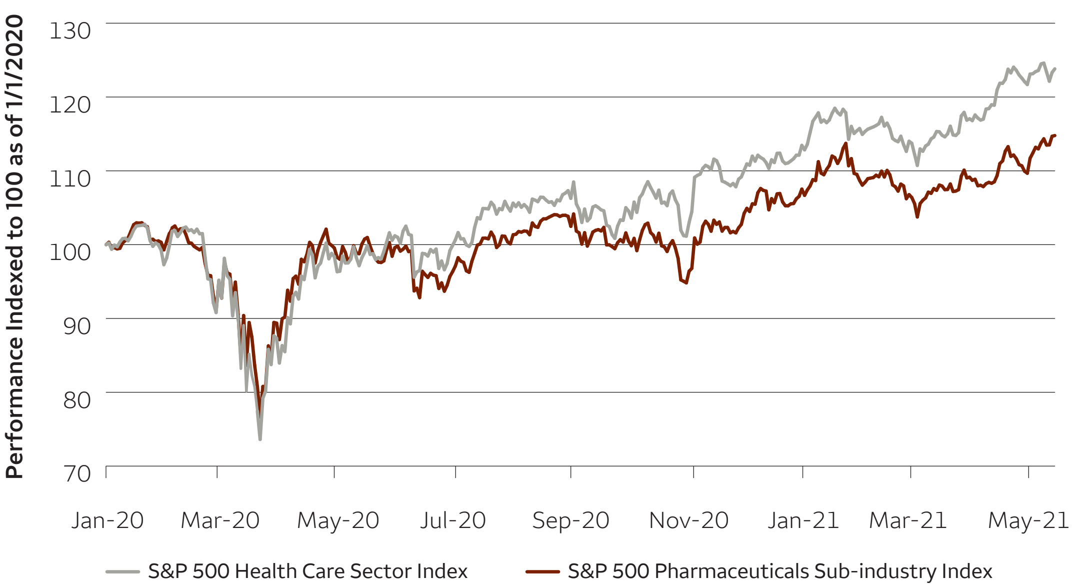
Health Care

Sector drivers/themes

The Health Care sector held up well through the COVID-19 pandemic during 2020, though has underperformed the market in the first half of 2021, as investors focus on stocks that are benefiting from the reopening of the economy. The S&P 500 Health Care Index increased 3.2% in the first quarter of 2021, trailing the 6.2% gain for the S&P 500 Index, as the market has focused on sectors that have benefited, or may potentially benefit, from economic reopening. Longer-term, we continue to believe the Health Care sector remains very well positioned, barring anything unforeseen and unfavorable coming out of Washington, DC, specifically with respect to health care reform. While the Democrats do control both Houses of Congress and the White House, we believe the passage of any significant health care reform efforts that could be disruptive to the sector remains unlikely.

Greg Simpson, CFA®
Equity Sector Analyst

Pharmaceuticals Sub-industry Underperformed the Health Care Sector Through Mid-May 2021



The Pharmaceutical sub-industry has underperformed the overall Health Care sector since the start of 2020, continuing a trend that has been in place in recent years. We continue to prefer health care equipment and supplies overall through 2021, specifically medical device and life sciences companies.

Source: Morningstar Direct, Wells Fargo Advisors. Data through 5/14/2021. Data indexed to 100 starting 1/1/2020. **Past performance is no guarantee of future results**. An index is unmanaged and not available for direct investment. The S&P 500 Sector Indices measure the performance of the widely-used Global Industry Classification Standard (GICS®) sectors and sub-industries. Each index comprises those companies included in the S&P 500 that are classified as members of their respective GICS® sectors. The S&P 500 is a market capitalization-weighted index generally considered representative of the U.S. stock market.

Where to invest in 2021

We believe the outlook for the Health Care sector, in general, remains favorable for long-term investors. Disruptions related to the pandemic have proven to be temporary for most companies, and the sector appears to be returning to a state of normalcy in 2021. We are seeing greater than normal rotation within the sub-industries within the Health Care sector as the market looks beyond the COVID pandemic, but as we look at our preferred sector positioning for 2021, we continue to favor the medical device and life sciences sub-industries. Both areas offer strong fundamentals, continued advancement of technology, and reasonably limited macro risks. Meanwhile, we continue to suggest a neutral stance on pharmaceutical stocks, which underperformed the overall health care sector in the first quarter of 2021 and over the previous 12-month period, largely in response to ongoing drug pricing concerns. While this issue has been an overhang for pharma stocks for quite some time, the Biden Administration has yet to show specific details on this topic, and with the Democrats controlling both Houses of Congress, as well as the While House, we believe investors remain cautious on this sub-industry in the near-term. With respect to managed care, we view this sub-industry more favorably on a post-election basis and on a post-COVID basis, though remain neutral at this point. While we believe some action on drug pricing is likely, as well as further expansion of Medicare, we believe the risk of an aggressive and disruptive attempt at health care reform remains fairly minimal over the next 12-18 months, given the small majorities held by the Democrats in both the House and Senate.

Favorable

- Life Sciences Tools and Services
- Medical Devices and Equipment

Neutral

- Biotechnology
- Health Care Distributors
- Health Care Services
- Managed Care
- Pharmaceuticals

Unfavorable

- Generic Pharmaceuticals
- Health Care Facilities

Valuation

The Health Care sector is currently trading at 16.8x the NTM consensus EPS estimate of $85.72. The current P/E ratio is above the five-year average for the group of 15.8x. Relative to the S&P 500, the Health Care sector has been trading at 0.8x, modestly below the 0.9x five-year historical average level.

Risks

Risks to companies within the Health Care sector include competition on branded products, sales erosion due to cheaper alternatives (such as generic pharmaceuticals and/or biosimilar products), research and development risk, and dependence on regulators such as the Food & Drug Administration (FDA) to approve products anticipated to enter the market. Additionally, companies can be exposed to cuts in Medicare reimbursements (either based on yearly review or due to sequestration) as well as uncertainty surrounding healthcare reform efforts in the U.S.

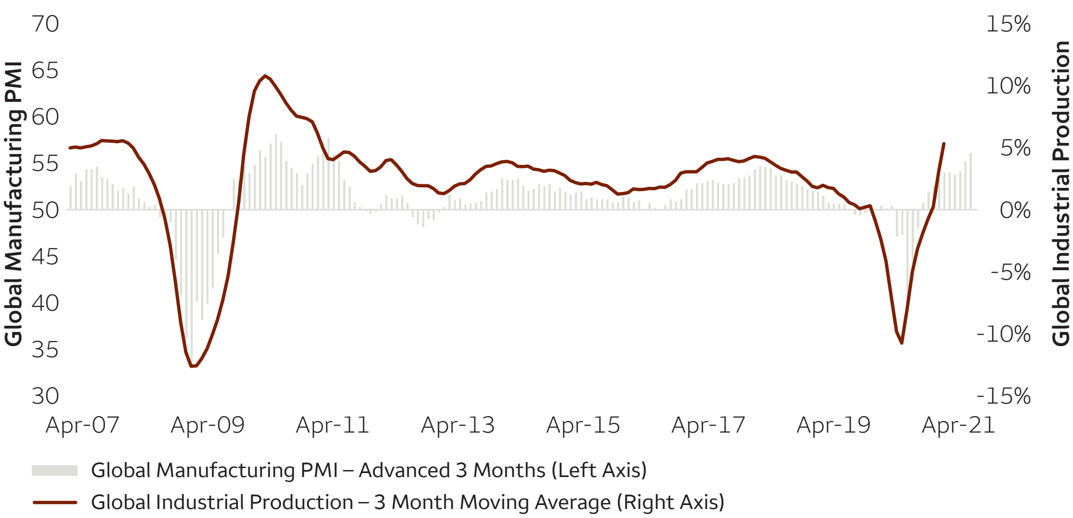
Industrials

Sector drivers/themes

Every cycle is unique, but we could argue this one takes the cake for the number of large factors impacting the performance of the Industrials sector. In 2020 we saw a brief industrial recession as factories across the world shut down due to the pandemic. Since last summer we have seen one of the strongest recoveries on record. Inventories are low, supply chains are tight, order activity is robust in most end markets, and input cost pressures are beginning to bite. That's the short term. Key trade relations remain unsettled, the energy transition has gathered pace, and fiscal spending appears poised to have a significant impact in many areas. That's the long term. We generally believe that operating leverage should be a friend for this sector and outside of trade frictions, many longer term factors could support higher levels of investment in fixed capital.

Lawrence Pfeffer, CFA®
Equity Sector Analyst

Global Industrial Activity



Global manufacturing sentiment gauges are currently pointing toward some of the strongest growth rates in industrial production in the last 15 years.

Source: FactSet, Wells Fargo Advisors. Data through 4/30/2021. Purchasing Managers' Indices (PMIs) are surveys of purchasing managers that are used to measure sentiment and predict demand in the near future. 50 represents the breakeven between expansion and contraction in overall conditions.

Where to invest in 2021

We remain favorable on multi-industrials, building products, and railroads. We are also adding air freight and logistics to our list of favorable sub-industries. Multi-industrials would now be our preferred area for "cyclical" exposure. As it regards multi-industrials this is not a sub-industry recognized by GICS® (Global Industry Classification Standard). We define this group as including many companies within the industrial conglomerates, electrical equipment, and industrial machinery sub-industries. This group generally has high quality characteristics, leverage to multiple areas of the economy, and is likely to be a beneficiary of increased fiscal stimulus.

In terms of building products, we believe the group (which is primarily comprised of companies in the heating, ventilation, and air conditioning end market) should benefit from strong spending trends in home improvement, rising temperatures and hence demand for cooling, efforts to reduce emissions from existing heating and cooling equipment, and a desire to improve indoor air quality post COVID-19.

We believe railroads remain well-positioned to potentially benefit from improving trends in consumer spending, industrial production, and global commodities demand. In addition, the sub-industry has now broadly embraced the well-tested margin improvement philosophy of Precision Scheduled Railroading. We see valuations for this group as reasonable compared to other cyclically-oriented sub-industries in Industrials.

We are favorable once again on air freight and logistics. First and foremost this is due to a change in industry characteristics, largely due to new management put in place at the two large parcel carriers. Newfound capacity discipline and a higher focus on revenue quality and returns on capital could not have come at a better time. We expect e-commerce related volumes to remain robust, domestic business traffic to recover with the economy, and international airfreight profitability to remain elevated.

Favorable

- Air Freight and Logistics
- Building Products
- Multi-Industrials
- Railroads

Neutral

- Agricultural Machinery
- Commercial Services and Supplies
- Construction and Engineering
- Construction Machinery
- Defense Contractors
- Industrial Distributors
- Professional Services
- Truck Machinery
- Trucking

Unfavorable

- Airlines
- Commercial Aerospace

Valuation

The Industrials sector currently trades at 25.8x the NTM consensus estimate of $35.12. The current P/E ratio is above the five-year historical valuation of 18.9x. Relative to the S&P 500, the Industrials sector is trading at 1.2x, above historical levels of 1.0x.

Risks

The Industrials sector is heavily influenced by underlying conditions in the global economic environment. Many companies in the sector are also heavily tied to government policy in multiple jurisdictions, covering topics such as trade, taxes, interest rates, and fiscal spending. The pace of technological change also appears to be accelerating, which could make incumbent business models more challenging in the future.

Information Technology

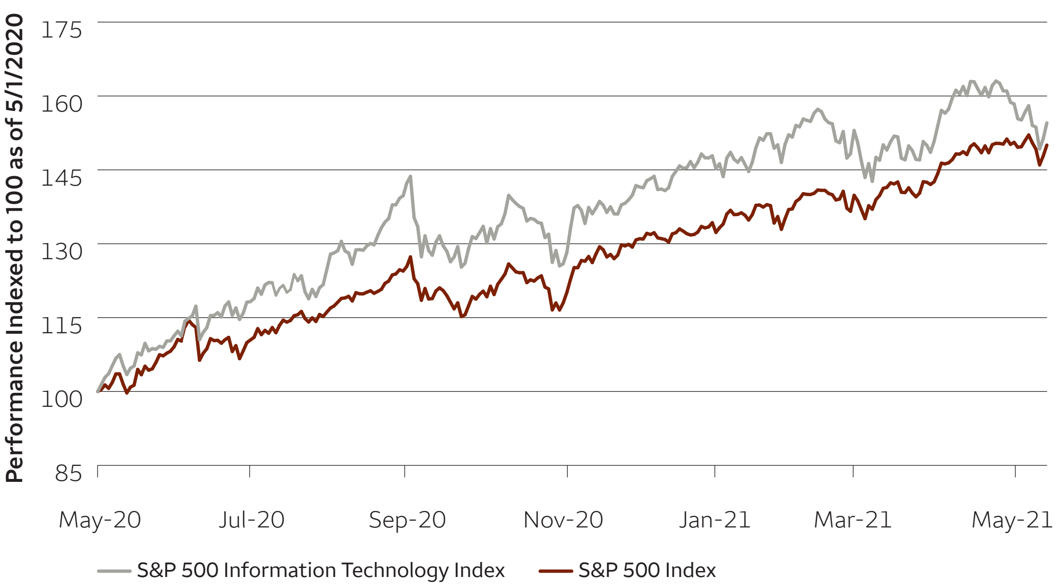
Sector drivers/themes

The current semiconductor shortage has impacted multiple industries and applications, including automotive, smartphone, game console, personal computers, data centers, networking equipment, home appliances, and batteries for electric vehicles. The most acute impact has been felt by the worldwide automotive industry. We expect semiconductor chip suppliers focused on the automotive end market are shipping below end market demand and will be chasing demand throughout 2021, as supply catches up with demand.

These severe semiconductor shortages brought on by how semiconductor industry supply and demand dynamics were managed through the pandemic, along with increased concerns over national security has led to bipartisan support to invest more in domestic semiconductor manufacturing in a push to become more self-sufficient and rely less on the Asia region for our semiconductor manufacturing needs. The Biden Administration's America's Jobs Plan proposal has allocated $50 billion towards investments in domestic semiconductor manufacturing.

Amit Chanda
Equity Sector Analyst

Information Technology Sector Performance vs. S&P 500



The Information Technology sector has outperformed the S&P 500 over the past year, with sub-industry performance strength in semiconductors and semiconductor capital equipment. We continue to prefer semiconductor and semiconductor capital equipment, networking equipment, payment processors and IT services overall as we enter the back half of 2021.

Source: Morningstar Direct, Wells Fargo Advisors. Data through 5/14/2021. Data indexed to 100 starting 5/1/2020. **Past performance is no guarantee of future results**. An index is unmanaged and not available for direct investment. The S&P 500 Sector Indices measure the performance of the widely-used Global Industry Classification Standard (GICS®) sectors and sub-industries. Each index comprises those companies included in the S&P 500 that are classified as members of their respective GICS® sectors. The S&P 500 is a market capitalization-weighted index generally considered representative of the U.S. stock market.

Where to invest in 2021

The first half of 2021 was characterized by an ongoing shift from growth to value oriented equities primarily driven by interest rates inching higher with increasing concerns over higher inflation expectations. Broadly speaking, this led to a rotation out of the more secular growth oriented technology equities with elevated valuation metrics relative to their historical averages. As a result of these market dynamics, investor focus has shifted towards the more cyclically oriented sectors with relatively higher sensitivity to this year's forecast for the strongest GDP led recovery over the past 35 years.

We expect the rebound in the macroeconomic environment this year along with the Biden Administration's proposed $2.3 trillion America's Jobs Plan to benefit the semiconductor and semiconductor capital equipment sub-industries. The semiconductor industry is experiencing material supply constraints. The incapacity of the semiconductor supply chain to meet extremely high levels of demand has been evident across several end market applications, including chips for autos, personal computers, notebooks, smartphones, game consoles, data centers, networking equipment, home appliances, medical devices, and batteries for electric vehicles. Most semiconductor companies expect supply constraints to last throughout 2021, as manufacturing supply catches up with higher levels of demand.

As the domestic economy works its way closer to a full reopening, we expect worldwide IT spending to improve this year in the low to mid-single digit percentage range. Last year, worldwide IT spending declined approximately 3% year-over-year. As more and more corporate offices reopen sometime this year, this should lead to higher on premise enterprise IT spending patterns, particularly for networking equipment.

The multi-year 5G network buildout should support many long-term technology trends. We expect the semiconductor sub-industry to benefit from ongoing 5G handset and 5G infrastructure deployments in 2021.

Favorable

- IT Services
- Networking Equipment
- Payment Processors
- Semiconductors and Semiconductor Equipment
- Software

Neutral

- Electronic Equipment Instruments and Components
- PC Hardware

Unfavorable

- Storage and Peripherals

Valuation

The Information Technology sector currently trades at 24.8x the NTM consensus EPS estimate of $96.32. The P/E ratio is above the five-year historical valuation of 20.6x. Relative to the S&P 500, the Information Technology sector is trading at 1.2x, which is slightly above historical levels of 1.1x. Historical comparisons are skewed as a result of the Internet Services and Home Entertainment & Software industries which left the Information Technology sector and moved into the Communication Services sector as of 9/21/18.

Risks

Risks for the Information Technology sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management.

Materials

Sector drivers/themes

Inflation. If there is a sector that has seen that trend in spades in recent months it's Materials. The global supply chain was caught flat-footed by the pace of recovery in economy activity in 2020 and early 2021. Quite simply, consumer spending on goods has been stronger than anticipated, production activity has been hampered by pandemic-related restrictions, and capacity decisions (facility closures or delayed project ramps) have often had significant impacts. Then severe winter weather hit the southern U.S. and took a large portion of chemical supplies offline. This has created a backdrop of significant raw material price increases. Most companies in this sector benefit from that dynamic. We expect markets for many of the basic materials that this groups makes to remain tight for the near term. That said, we would anticipate some normalization over the medium term and our sub-industry preferences reflect this.

Lawrence Pfeffer, CFA®
Equity Sector Analyst

Producer Price Index Final Demand Goods Less Food and Energy
Year-Over-Year Percent Change

We view this measure as a reasonable gauge of broader industrial inflation, which has accelerated meaningfully lately.

Source: U.S. Department of Labor, FactSet, Wells Fargo Advisors. Data through 3/31/2021.

Where to invest in 2021

Materials is split into roughly three parts. First, there are high quality sub-industries like industrial gases and specialty chemicals. Second, there are "garden variety" cyclicals like packaging and commodity chemicals. Last there are extractive/commodity-centric sub-industries like metals and mining, fertilizers, and aggregates. At present, we believe valuations in many of the more cyclically-oriented sub-industries do not warrant a move in to the favorable category and instead we reiterate our favorable views on both industrial gases and coatings, both of which are also heavily tied to the broader economic cycle.

We are attracted to these two areas largely due to industry structure. These are heavily consolidated end markets with only a handful of scale players on a global basis. They are generally able to price for the value of the products and services they provide rather than being tethered to commodity price movements. We would also note that these sub-industries have greater exposure to end markets that generally showcase lower cyclicality and stronger long-term growth characteristics compared to other sub-industries in the Materials sector.

In terms of incremental catalysts over the medium term, both industrial gases and coatings would likely see volumes benefit from a sustained industrial recovery. In the case of industrial gases, we would note that companies in the sub-industry could see significant long-term revenue opportunities from the expanding usage of hydrogen in industrial and power generation applications. On the coatings side, a favorable backdrop (aging housing stock, low interest rates, etc.) could continue to drive above normal growth trends in home improvement spending, while improving industrial activity should also drive increased demand.

Favorable

- Coatings
- Industrial Gases

Neutral

- Commodity Chemicals
- Construction Materials
- Containers and Packaging
- Diversified Chemicals
- Fertilizers
- Mining
- Paper and Forest Products
- Specialty Chemicals (excluding Coatings)

Unfavorable

- Steel

Valuation

The Materials sector currently trades at 20.0x the NTM consensus EPS estimate of $27.64. This P/E ratio is above the average five-year historical valuation of 17.9x. Relative to the S&P 500, the sector is trading at 0.9x just below historical levels of 1.0x.

Risks

The sector is sensitive to fluctuations in and relationships among commodity prices, particularly crude oil, natural gas and liquid natural gas, metals, and agricultural products. China has been a major factor in driving demand for commodities in the Materials sector and therefore has been a volatility factor in pricing for many commodities. A global economic slowdown would likely weigh on the Materials sector's performance. Many materials companies have significant operational exposure to foreign currencies. Additionally, many commodities are priced in U.S. dollars. Strength in the U.S. dollar could negatively impact reported results within the sector.

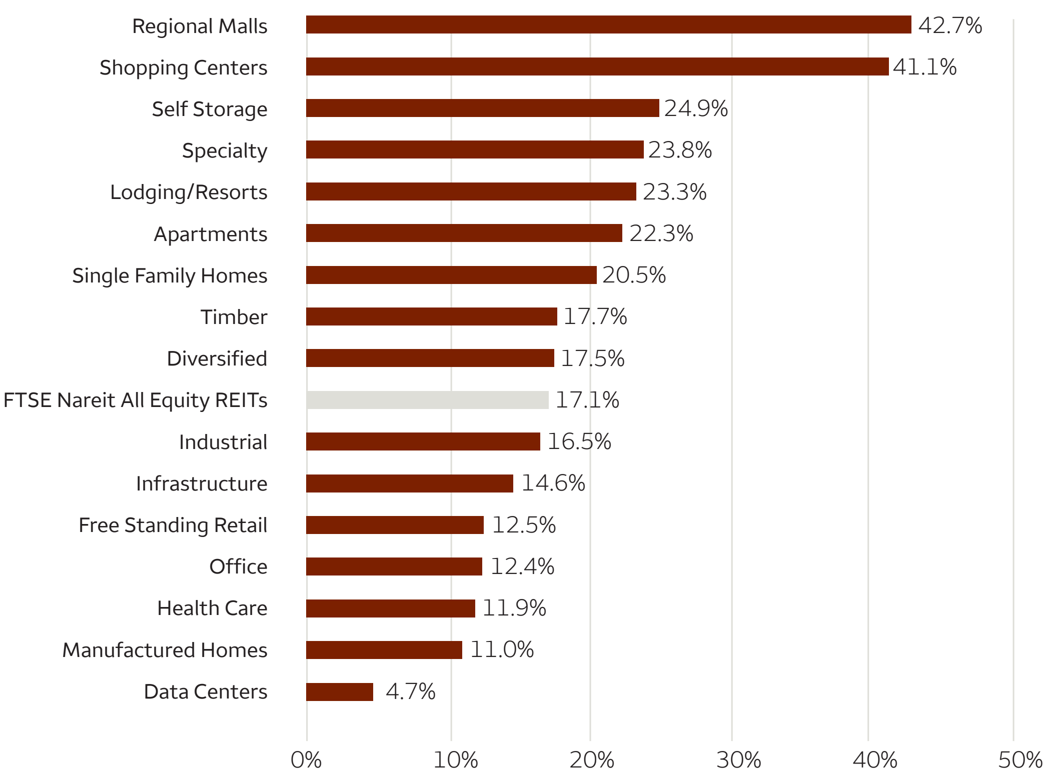
Real Estate

Sector drivers/themes

Given the significant impacts on real estate investment trusts (REITs) resulting from the COVID-19 pandemic, we believe a meaningful influence on 2021 REIT total returns will be the timing and pace of an economic recovery given a number of REIT sub-industries are viewed as economically sensitive. We also believe the significant progress towards a medical solution to the COVID-19 pandemic has had, and could continue to have, a positive impact on a number of REIT sub-industries, particularly industries related to retail and hospitality. The interest rate environment can also be a factor in REIT total returns. Another major influence will likely be the ability of REITs to access attractively priced capital, which has improved for a number of REITs given stronger equity returns from certain REIT sub-industries since the initial positive vaccine news in early November 2020. Finally, we believe the common dividend reductions implemented by certain REITs in sub-industries significantly influenced by COVID-19 have likely lowered investor confidence in the stability of REIT common dividend income. Should the Real Estate sector return to consistent common dividend growth during the remainder of 2021, we believe REIT valuations would likely improve.

John Sheehan, CFA®
Equity Sector Analyst

Year-to-date REIT Total Returns by Property Sector



Source: FTSE™, FactSet, Nareit®, Wells Fargo Advisors. Data through 4/30/2021. **Past performance is no guarantee of future results**. An index is unmanaged and not available for direct investment. The FTSE NAREIT All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property.

REIT sub-industry 2021 performance through April 30, 2021 represented a reversal of 2020 performance, with sectors considered to be potential beneficiaries from various trends related to COVID-19 (data centers, infrastructure [cell towers], industrial, and manufactured housing) along with office, free standing retail, and health care generating weaker relative total returns. On the opposite end of the spectrum, REIT sub-industries that had been negatively impacted by COVID-19 were stronger performers; these sub-industries included retail (shopping centers and regional malls), lodging/resorts, and apartments. Additionally, single-family homes, specialty, self-storage, timber, and diversified REITs also posted stronger relative returns.

Where to invest in 2021

On the earnings growth front, we expect specialty REITs (particularly technology-related REITs such as cell tower REITs) and industrial REITs to produce strong growth due to solid underlying demand from their tenants. Cell tower REITs are benefiting from continued growth in mobile data usage and the rollout of new 5G wireless communication technology, while tenant demand for industrial buildings is being positively impacted by higher e-commerce sales due to COVID-19. Additionally, earnings growth from the manufactured housing REITs is also anticipated to remain stable given consistent tenant demand combined with very low levels of new property construction. We believe REIT property sectors that may outperform during a period of rising interest rates and stronger economic growth would include REITs with shorter lease durations (such as self-storage and residential sectors including manufactured housing and apartments). We view REITs with shorter lease terms are generally better positioned to potentially benefit from an inflationary environment as their shorter lease terms allow these REITs to increase rental rates faster than REITs with longer lease terms. Conversely, industries with longer lease terms (such as free standing retail and health care) or sectors that could be negatively impacted by trends resulting from the pandemic (apartments and office) may lag the broader Real Estate sector returns. As noted above, REITs in the shopping center, regional mall, and lodging/resort sectors have recently generated strong total returns; should an economic recovery not occur as expected, REITs in these more economically sensitive sub-industries could underperform.

Favorable

- Industrial REITs
- Infrastructure (Tower) REITs
- Self-storage REITs

Neutral

- Health Care REITs
- Multi-tenant Retail REITs
- Net Lease REITs
- Office REITs
- Residential REITs

Unfavorable

- Hotel and Lodging REITs

Valuation

The Real Estate sector is currently trading at a price-to-funds from operations ratio (P/FFO)[1] of 22.3x NTM FFO based on consensus estimates of $11.77. The current P/FFO ratio is above the five-year average of 18.8x. Relative to the S&P 500, the Real Estate sector has been trading at 1.0x, in line with its five-year average of 1.0x. The Real Estate sector pays an annual dividend of about 2.6%, compared to the yield of 1.4% within the S&P 500 Index.

Risks

Risks to companies within the Real Estate sector include: changes in economic growth in key markets, competition from new property developments, larger tenants encountering financial difficulties lessening their ability to pay rental obligations, a rapid rise in interest rates that makes other income-oriented investments more attractive, potential unexpected common dividend reductions, and changes in the cost or availability of attractively priced capital that is necessary for REITs to complete acquisitions and new property developments.

1. Price-to-funds from operations is calculated by dividing the market capitalization by funds from operations. Funds from operations equals net income + depreciation expense + amortization expense + losses on sale of assets – gains on sale of assets. When calculating P/FFO for the Real Estate Sector, it is calculated as the aggregate market capitalization of all companies in the Real Estate sector by their total estimated funds from operations.

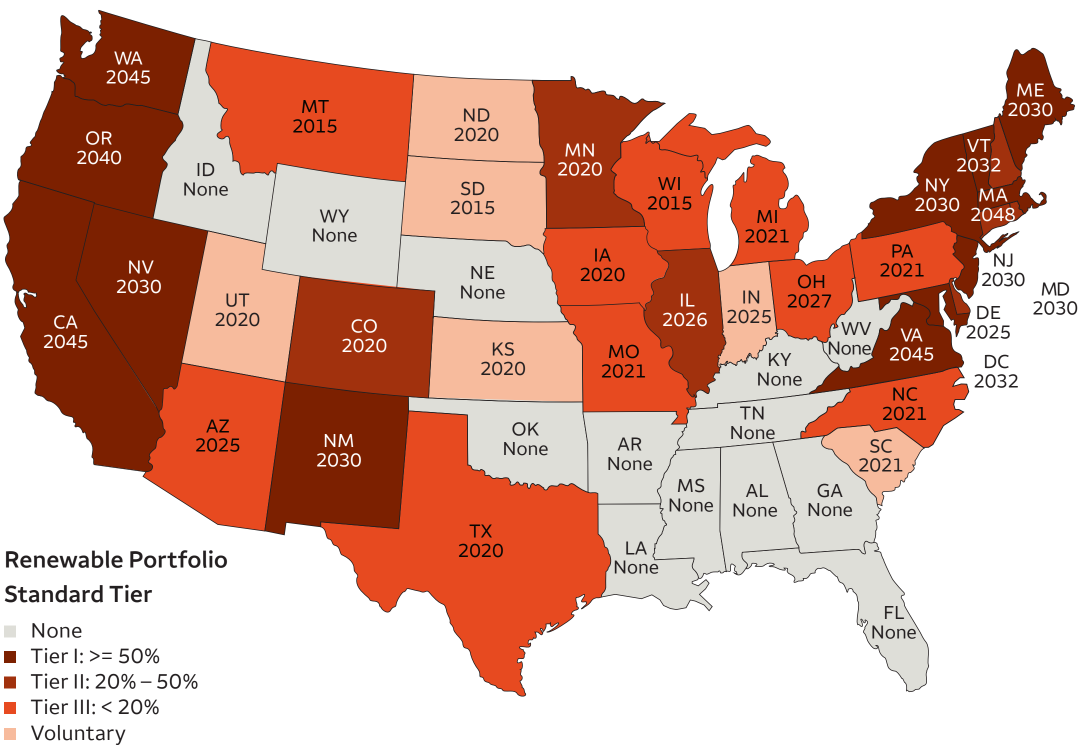
Utilities

Sector drivers/themes

For the remainder of 2021 (and beyond), we expect clean energy to be a major focus within the Utilities sector. This topic has been building across many industries and sectors and we believe utilities will play a central role in the clean energy landscape. Clean energy is a broad subject that covers many interrelated areas and buzzwords such as the "E" in ESG (Environmental, Social, and Governance) investing, renewables, emissions reductions, storage, renewable portfolio standards, electrification, renewable natural gas, hydrogen, electric vehicles, and others. Plainly stated, utilities consume hydrocarbons to generate electricity (electric utilities) or distribute hydrocarbons (natural gas utilities) to customers. To meet state and customer goals for cleaner energy, utilities can invest in new technologies to lower the environmental impact of their, and their customers', operations. That investment can drive rate base growth and earnings for the utilities.

Joseph Buffa
Equity Sector Analyst

Renewable Portfolio Standards by State (Target Year)



Source: S&P Global Market Intelligence, Wells Fargo Advisors. This illustration shows each state's renewable portfolio standard goal and the year by which the goal is to be met. For example, California is aiming to generate greater than 50% of electricity from renewable sources by 2045.

We believe state renewable portfolio standards (RPS) will continue to be a driving force behind renewable generation growth for years to come. Recently proposed spending programs at the Federal level could also support the national clean energy push.

Where to invest in 2021

Generally speaking, we do not favor investing in themes or trends when it comes to utilities. However, we currently see an intersection between our core utility investing thesis and what we view as the long-term trend toward clean energy.

We believe the main attraction of utility investing is the stability often displayed by the companies and subsequently the reliable income they can provide. For this reason, we generally suggest the core utility exposure of a portfolio should be concentrated in high-quality, well-run, regulated utilities in supportive regulatory jurisdictions. We recently introduced an added qualifier of "primarily" in front of regulated to open up to growth prospects of certain unregulated operations (i.e., renewables). Additionally, we've noticed many of the same utilities that fall into our core thesis overlap with those taking leading roles in advancing clean energy.

Among the sector's industries, we believe electric and multi utilities offer the most exposure to the quality/clean energy intersection (admittedly, these industries represent greater than 90% of the sector). Utilities in these industries can potentially benefit from the transition toward clean energy driven by state requirements, customer demand, and electrification, among other items. The water utility industry doesn't have the same level of exposure to clean energy but does have a long runway of growth opportunities and ESG appeal. Our less favorable view on gas utilities is driven by the accelerating shift away from fossil fuels, gas included, in different regions of the country. This shift goes hand-in-hand with the move toward clean energy. We're doubtful, however, that natural gas' role disappears in short order but sentiment could restrain the stocks' performance. With regard to independent power and renewable energy producers, we generally view independent power as more volatile than we like for the sector while certain renewable electricity producers are fairly attractive.

Favorable

- Electric Utilities
- Multi Utilities
- Water Utilities

Neutral

- Gas Utilities
- Independent Power and Renewable Electricity Producers

Valuation

The Utilities sector trades at approximately 19.4x the NTM consensus EPS estimate of $17.19, which is above its five-year historical average of about 18.0x. Relative to the S&P 500, the Utilities sector is trading at 0.9x, slightly below historical levels of 1.0x. The Utilities sector pays an annual dividend of about 3.2%, compared to the yield of 1.4% within the S&P 500 Index.

Risks

Regulatory risk remains a key uncertainty for the Utilities sector, both at the federal and state levels. Additionally, utilities typically carry high debt levels, and rising rates could impact their overall borrowing costs. High debt levels could also put a strain on credit ratings, which would also limit the ability to finance capital expenditures. As mergers and acquisitions (M&A) activity increases, companies may face challenges when integrating those acquired businesses.

Other risk considerations

All investing involves risks, including the possible loss of principal. There can be no assurance that any investment strategy will be successful. Investments fluctuate with changes in market and economic conditions and in different environments due to numerous factors, some of which may be unpredictable. Each asset class has its own risk and return characteristics, which should be evaluated carefully before making any investment decision. Some of the risks associated with the representative asset classes discussed in this report include:

Equity Securities
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. There are no guarantees that growth or value stocks will increase in value or that their intrinsic values will eventually be recognized by the overall market. The return and principal value of stocks fluctuate with changes in market conditions. The growth and value type of investing tends to shift in and out of favor.

There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

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

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. **Real estate** investments have special risks, including possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

Sustainable investing focuses on companies that demonstrate adherence to environmental, social, and corporate governance principles, among other values. There is no assurance that social impact investing can be an effective strategy under all market conditions. Different investment styles tend to shift in and out of favor. In addition, a Firm's social policy could cause it to forgo opportunities to gain exposure to certain industries, companies, sectors, or regions of the economy which could cause it to underperform similar portfolios that do not have a social policy.

Master Limited Partnerships
Investments in Master Limited Partnerships (MLPs) involve certain risks that differ from an investment in the securities of a corporation. MLPs may be sensitive to price changes in oil, natural gas, etc., regulatory risk, and rising interest rates. A change in the current tax law regarding MLPs could result in the MLP being treated as a corporation for federal income tax purposes, which would reduce the amount of cash flows distributed by the MLP. Investment in real estate securities include risks, such as the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions.

Definitions
An index is unmanaged and not available for direct investment.

Producer Price Index (PPI) is a family of indexes that measures the average change in selling prices received by domestic producers of goods and services over time.

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment.

S&P 100 Index measures large cap company performance and consists of up of 100 major, blue chip companies across diverse industry groups. The primary criterion for index inclusion is the availability of individual stock options for each constituent.

S&P 500 Communication Services Index comprises those companies included in the S&P 500 that are classified as members of the GICS® communication services sector.

S&P 500 Consumer Discretionary Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

S&P 500 Consumer Staples Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

S&P 500 Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

S&P 500 Health Care Index comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

S&P Pharmaceuticals Select Industry Index represents the pharmaceuticals sub-industry portion of the S&P Total Markets Index.

S&P 500 Industrials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

S&P 500 Information Technology Index comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

S&P 500 Materials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

S&P 500 Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

S&P 1500 Index is a market capitalization-weighted index that is based on the S&P 500, S&P MidCap 400, and the S&P SmallCap 600 Indices and represents approximately 90% of the entire U.S. equity market. **S&P 500 Index** is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market. **S&P MidCap 400 Index** is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. **S&P SmallCap 600 Index** consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock's weight in the index proportionate to its market value.

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How can we help?

Start the conversation with your Wells Fargo Advisors Financial Advisor today.

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