WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment **January 15, 2025**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: -1.9%

Moving toward the opportunity zone

Key takeaways

- Meaningful pullbacks in equities have been few and far between since the late-October 2023 lows in the S&P 500.
- In the coming weeks and months, we believe the potential for more attractive entry points to increase exposure could very well materialize in both equities and fixed income. Be ready.

Patience is a virtue. How many times have we heard that in our lifetimes? This strategist would suspect the answer from our regular readers would be "many, many times." We have been promoting the idea of patience when it comes to the stock and bond markets for some time. Meaningful pullbacks in equities have been few and far between since the late-October 2023 lows in the S&P 500 Index (SPX). But based on Bloomberg data, and over the long history of the SPX, a 10% pullback occurs on average approximately every 10.5 months. So they do happen with a reasonable amount of frequency.

The key, especially for long-term investors with a three to five-plus year time horizon, is to be patient and take advantage of pullback opportunities as they occur. Of course, that means having a plan in place to invest sidelined funds. Recall that our year-end 2025 target range for the SPX is 6,500 to 6,700, which we believe offers an attractive return, especially at entry points below the current level. And so we favor using pullbacks like these to reallocate cash and short-term instruments in increments into equity positions. The incremental approach, or dollar cost averaging, is one way to move conservatively.

The same might be said in the bond market. We have been patiently waiting and anticipating the yield on the 10-year Treasury note to move into the 4.5% to 5% range. As of the time of this writing, the yield on the 10-year note is just above the midpoint of that range (4.8%). For long-term fixed income, we favor an allocation that matches the investor's long-term target. We had previously been unfavorable (underweight) on that segment of the fixed-income market as we believed a yield down near and below 4% was too low given our outlook for the economy and inflation, which has been stickier than some had anticipated. We have been encouraging investors to (again) use dollar cost averaging to bring their allocations up to neutral positioning.

In the coming weeks and months, the potential for more attractive entry points to increase exposure could very well materialize in both equities and fixed income. We want to be ready. Many investors are sitting on sidelined funds they intend to invest in both stocks and bonds. The key to taking advantage of pullbacks in the stock or bond markets is to have a well-thought-out plan. We encourage investors to talk to their financial advisors now to make sure their plan is in place rather than waiting until the opportunity is on their doorstep. Planning ahead is a big part of taking advantage of market dislocations.

So for now, continue to lean toward large-cap domestic stocks and bring long-term fixed-income allocations up to neutral. But be ready to act when and if opportunities broaden in the near-to-intermediate term.

Risk considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

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. 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.

Definitions

An index is unmanaged and not available for direct investment.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

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-07142026-7529365.1.1