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FROM THE DESK OF DARRELL L. CRONK

State of the Markets

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Darrell L. Cronk is the president of Wells Fargo Investment Institute, which is focused on delivering the highest quality investment expertise and advice to help investors manage risk and succeed financially.
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E Pluribus Unum

E Pluribus Unum — a Latin phrase meaning “Out of many, one” — was the motto proposed for the first Great Seal of the United States by Thomas Jefferson, John Adams, and Benjamin Franklin in 1776. Thirteen letters for 13 early American colonies making a bold attempt to unify a nation of diverse backgrounds, nationalities, and beliefs.

Every time I cross through the underground tunnels onto the island of Manhattan, I see this phrase emblazoned in copper and gold on the large tunnel gates. It reminds me of the critical role the motto has played in shaping our country’s history, ideals, and national character. Our latest election has once again challenged our country’s unity. I am a student of history, and I recognize that there have been periods when the country was just as deeply divided as it is now. Our republic survived those periods, and I believe it will again today.

I am also a student of the markets, and they have found unity quite quickly. Every major market, with the exception of the U.S. dollar, rallied following election night as investors became giddy with the idea of Washington gridlock. Many will focus in coming weeks on what *can’t* get done, but let’s take a more optimistic look at 10 uniquely bullish trends powered by what *can* get done.

1. Vaccine development and deployment remain on schedule, and the efficacy of early vaccines appear even better than expected. This has many of the U.S. equity indexes breaking above their recent 20-, 50-, and 200-day moving averages, suggesting positive near-term technical strength.
2. We are in the midst of one of the strongest periods of seasonality for risk assets. Historically, the best months for equity performance have been November through April (based on the S&P 500 Index).

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3. The amount of cash on the sidelines with institutional and retail investors, along with cash on the balance sheets of S&P 500 companies, is close to decade highs. This "dry powder" can provide ample fuel as it gets reinvested in myriad assets, including equities, bonds, commodities, and real estate.
4. The breadth of equity sector participation and leadership has widened out considerably. Through the summer months and early fall, equity market leadership was concentrated mainly within the Information Technology sector, and specifically within a few large names. Now we are seeing Industrials, Materials, Communication Services, Health Care, and even Financials participate more robustly. We view this broadening as a healthy and positive sign.
5. In the days following the election, the trade-weighted U.S. dollar dropped to a new two-year low. A falling U.S. dollar is good for multinational companies that generate sizable portions of their earnings from overseas.
6. More stimulus is likely coming, even possibly before year-end. Senate Majority Leader Mitch McConnell has indicated support for a package prior to year-end and may be willing to concede on previous negotiation sticking points like state and local government aid. Markets would likely receive this well, even if the total package is smaller than originally anticipated under a "blue wave" scenario.
7. The Federal Reserve (Fed) indicated at its November meeting that it stands at the ready for more monetary support as needed. This may come as early as December with an increase in the amount of Fed bond purchases from the current $120 billion per month. A continued supportive Fed has interest rates contained, credit spreads narrowing, and fixed-income volatility falling. All good signs for bond investors as demand for fixed income remains strong.
8. Prospects for a divided government have markets feeling better about the possibility of smaller tax increases and less regulatory burden than expected for the Information Technology, Health Care, and Financials sectors.
9. Third-quarter earnings, largely overshadowed by election headlines and spiking COVID-19 infection rates, have been nothing short of stellar. As the earnings season winds down, the S&P 500 has recorded one of the highest percentage beats in over a decade at 85% and trounced consensus expectations from the beginning of the reporting season by almost 20%.
10. The labor market continues to heal faster than expected. This month's nonfarm payroll report had the October unemployment rate dropping a full percentage point from 7.9% to 6.9%. The economy added back over 900,000 private sector jobs, and average hourly earnings increased at an annual rate of 4.5%, with little inflation, creating strong real wage growth. Better employment data can ultimately lead to better consumer spending and confidence levels.

To be clear and fair, not all recent trends are replete with optimism. We just finished one of the most divisive and vitriolic presidential elections of our generation, with what are sure to be fiercely contested Georgia run-off elections in January for control of the Senate, and we are in the midst of a global pandemic that has cost hundreds of thousands of Americans their lives and millions more their jobs.

In spite of that, or perhaps because of that, we must come together and heal as a nation. Our differences can divide us, or we can draw strength and unity from them. Our greatness as a country shines brightest in our collective ability to repair our faults, heal our wounds, and as messy as it can be, continue our work toward a "more perfect union." Our diversity of race, religion, thought, and yes, even political belief is what defines our freedom and makes our country unique in the world. Lots of Americans, but only one America. Out of many, one. Invest well.

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