

# Looking Ahead

August 25, 2023

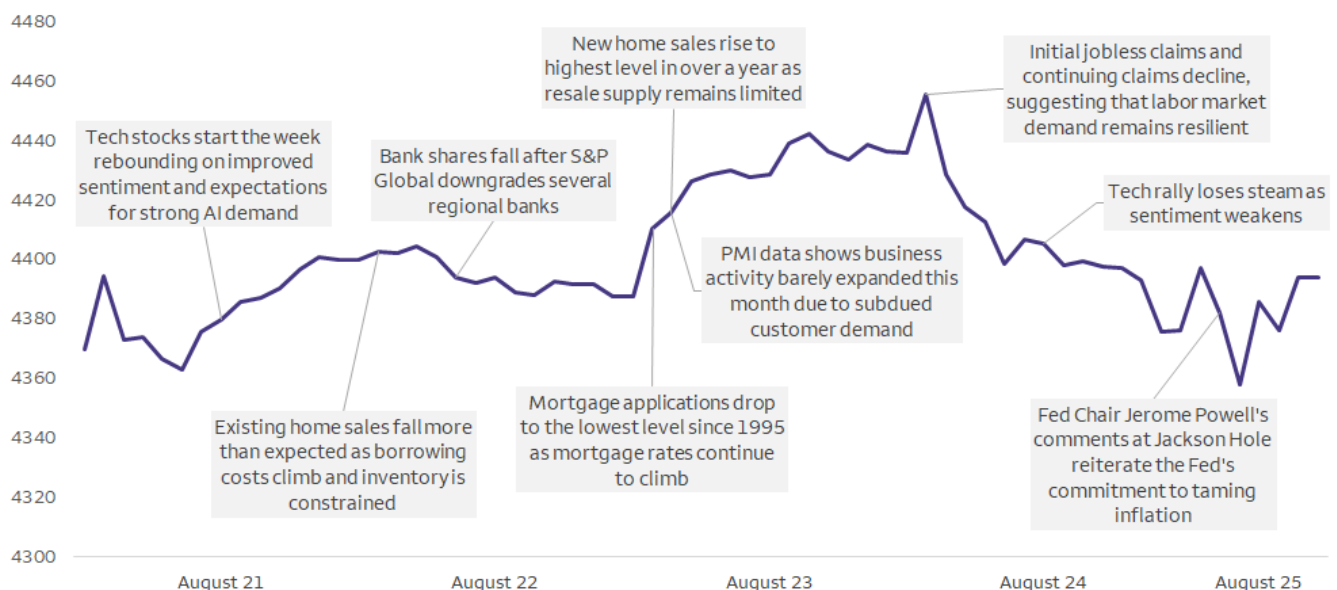
**“The chief task in life is simply this: to identify and separate matters so that I can say clearly to myself which are externals not under my control, and which have to do with the choices I actually control.”**

- Epictetus

## Stocks mixed on Fed speak

Stocks were mixed this week as all eyes were on Federal Reserve (Fed) commentary, various economic releases, S&P Global bank downgrades, and the return of the Artificial Intelligence (AI) driven rally in technology stocks that later waned. Central bankers shared differing opinions on whether the Fed will need to continue raising rates. On Friday afternoon, markets reacted to Fed Chair Jerome Powell’s commentary on inflation and monetary policy at Jackson Hole. Next week, the second print of second quarter Gross Domestic Product (GDP), personal consumption expenditure (PCE) inflation, and the August jobs report will be in focus. As the second quarter earnings season winds down, the S&P 500 Index remains on track for a third straight quarter of year-over-year (YOY) earnings declines.

### S&P 500 Index performance week of August 21 – 25



Sources: Bloomberg, Wells Fargo Investment Institute. Data from August 21, 2023 through August 25, 2023 at 12:30 p.m. ET. Past performance is no guarantee of future results. An index is unmanaged and not available for direct investment. PMI = Purchasing Managers' Index

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## Week in review: August 21 – 25

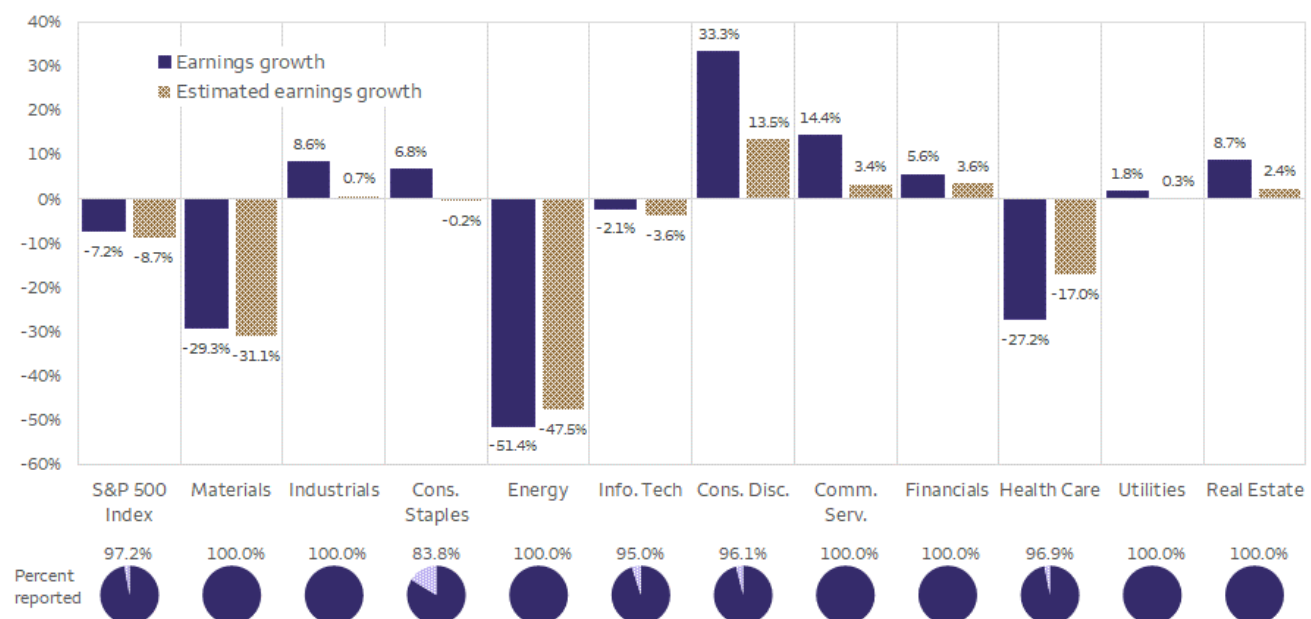
In his prepared remarks at the Fed’s Jackson Hole Economic Symposium, Powell reiterated the Fed’s commitment to getting inflation to its 2% target and noted that recent robust economic growth could push inflation higher, warranting additional rate hikes. Earlier in the week, Boston Fed President Susan Collins indicated that she felt additional rate hikes may be necessary, while Philadelphia Fed President Patrick Harker stated that he feels the Fed has tightened enough. Consistent with the Fed’s recent messaging and expectations that rates will remain elevated for longer, the futures market is pricing in a skip for the September meeting, around a 60% probability of a hike by year end, and no cuts until May 2024.

On the data front this week, preliminary August prints for S&P Global U.S. manufacturing and services purchasing managers’ index (PMI) data showed that U.S. business activity barely expanded due to subdued customer demand. Manufacturing PMI fell further into contractionary territory, while service-sector activity slowed to the weakest pace in six months, raising concerns about the durability of the recent strength in retail sales. A preliminary read of durable goods orders for July decreased 5.2% month over month (MOM), the greatest decline since April 2020, and capital goods orders increased 0.1% MOM in July. The weak orders data suggests that companies remain cautious about capital investment amid high borrowing costs, stiffer credit terms, and economic uncertainties.

Other data released throughout the week was generally mixed. University of Michigan consumer sentiment data was revised lower to 69.5 for August from the preliminary reading of 71.2. According to the survey, consumers are uncertain about the economic outlook, particularly with regards to inflation. Updates on the housing market included new home sales (+4.4% MOM in July) and existing home sales (-2.2% MOM in July). The decline in existing home sales was due to constrained supply as homeowners remain reluctant to sell amid high mortgage rates. Meanwhile, new home sales rose to the highest level since February 2022, supported by the lack of supply in the resale market. On the labor market front, initial jobless claims and continuing claims fell in the latest week, suggesting that labor market demand remains strong. While jobless claims data is signaling a still resilient labor market, the Bureau of Labor Statistics’ preliminary benchmark revision showed that the number of workers on payrolls will likely be revised down by 306,000 for March 2023, suggesting that the current strength in the labor market may be somewhat overstated.

By Friday morning, the major averages were on course to finish mixed for the week. As of 12:30 p.m. ET, the S&P 500 Index was on pace for a 0.6% weekly gain, while the Nasdaq Composite was set to advance 1.6%. The Dow was positioned to fall 0.6% for the week.

### Q2 earnings are on track to contract for a third consecutive quarter as earnings season wraps up



Sources: Bloomberg, Wells Fargo Investment Institute. Chart shows actual versus projected S&P 500 Index earnings growth by sector. Actual earnings growth as of August 25, 2023 at 8:30 a.m. ET. Bloomberg consensus estimated earnings growth as of June 30, 2023 at 8:30 a.m. ET. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

## Looking ahead to next week: August 28 – September 1

The highlight of the week will be the labor market, with August's jobs report and ADP employment change along with July's JOLTS survey. Investors will also be eyeing July's personal spending and income and PCE Deflator, along with August's report on consumer confidence. Also on tap: revised second quarter GDP, PMIs for manufacturing from ISM and from S&P Global, and for Chicago from MNI. Rounding out the docket are housing updates from July's pending home sales and house price data for June from FHFA and S&P CoreLogic. In the auction space will be a \$127 billion Treasury sale of two-, five-, and seven-year securities.

Asian investors will be looking at Chinese August PMIs from the China Federation of Logistics & Purchasing and from Caixin. Japan's upcoming data calendar will include second quarter capital spending along with August's consumer confidence and finalized Jibun Bank manufacturing PMI. Also on tap is the country's jobless rate, industrial production, retail sales, and housing starts, all for July. Australian data releases include July's Consumer Price Index (CPI), retail sales, building approvals, and private sector credit, while from South Korea there will be August's manufacturing PMI and trade balance along with July's industrial production.

The highlight of the week in Europe will be August's preliminary Eurozone CPI, along with the individual measures for Germany and France. August's finalized manufacturing PMI for the Eurozone, Germany, France, and the U.K. also are set for release. Additional reports include Eurozone and German unemployment for July and August, respectively, French finalized second quarter GDP and Producer Price Index for July, and British housing market data, including August house prices and July mortgage approvals. Look for August consumer confidence reports from the Eurozone and France and September prospects for sentiment from Germany.

### Scheduled economic releases for week of August 27, 2023

Date	Time	Country	Release	For	Consensus	Prior
Monday, 8/28	10:30 AM	U.S.	Dallas Fed Manf. Activity	August		-20.0%
Monday, 8/28	7:30 PM	Japan	Jobless Rate	July	2.5%	2.5%
Tuesday, 8/29	8:00 AM	Mexico	GDP NSA YoY	2Q Final	3.60%	3.66%
Tuesday, 8/29	9:00 AM	U.S.	FHFA House Price Index MoM	June		0.7%
Tuesday, 8/29	10:00 AM	U.S.	JOLTS Job Openings	July		9582k
Tuesday, 8/29	10:00 AM	U.S.	Conf. Board Consumer Confidence	August	116	117
Wednesday, 8/30	7:00 AM	U.S.	MBA Mortgage Applications	August 25		-4.2%
Wednesday, 8/30	8:15 AM	U.S.	ADP Employment Change	August	200k	324k
Wednesday, 8/30	8:30 AM	U.S.	GDP Annualized QoQ	2Q Second	2.4%	2.4%
Wednesday, 8/30	10:00 AM	U.S.	Pending Home Sales MoM	July	-0.90%	0.26%
Wednesday, 8/30	7:50 PM	Japan	Industrial Production MoM	July Prelim	-1.3%	2.4%
Thursday, 8/31	8:30 AM	U.S.	Initial Jobless Claims	August 26	235k	230k
Thursday, 8/31	8:30 AM	U.S.	Personal Income	July	0.3%	0.3%
Thursday, 8/31	8:30 AM	U.S.	Personal Spending	July	0.7%	0.5%
Thursday, 8/31	8:30 AM	U.S.	PCE Deflator YoY	July	3.3%	3.0%
Thursday, 8/31	8:30 PM	Japan	Jibun Bank Japan PMI Mfg	August Final		49.7
Thursday, 8/31	9:45 PM	China	Caixin China PMI Mfg	August	49.2	49.2
Friday, 9/1	4:00 AM	Eurozone	HCOB Eurozone Manufacturing PMI	August Final	43.7	43.7
Friday, 9/1	4:30 AM	U.K.	S&P Global/CIPS UK Manufacturing PMI	August Final	42.5	42.5
Friday, 9/1	8:30 AM	Canada	Quarterly GDP Annualized	2Q	1.2%	3.1%
Friday, 9/1	8:30 AM	U.S.	Change in Nonfarm Payrolls	August	170k	187k
Friday, 9/1	8:30 AM	U.S.	Unemployment Rate	August	3.5%	3.5%
Friday, 9/1	9:45 AM	U.S.	S&P Global US Manufacturing PMI	August Final		47
Friday, 9/1	10:00 AM	U.S.	ISM Manufacturing	August	47.0	46.4

Source: Bloomberg. Data as of August 25, 2023 as of 12:30 P.M. ET. Times shown in table are in Eastern Time. 2Q = second quarter.

## Scheduled earnings releases for week of August 27, 2023

Ticker	Company	Report date	Call time	Revenue est. (billions)	EPS est.	EPS year ago
CTLT	Catalent Inc	Tuesday, 8/29	8:15 AM	\$1.05	\$0.11	\$1.19
BBY	Best Buy Co., Inc.	Tuesday, 8/29	8:00 AM	\$9.52	\$1.06	\$1.54
SJM	J.M. Smucker Company	Tuesday, 8/29	9:00 AM	\$1.84	\$2.02	\$1.67
BF.B	Brown-Forman Corporation Class B	Wednesday, 8/30	10:00 AM	\$1.05	\$0.53	\$0.52
HPQ	HP Inc.	Wednesday, 8/30	5:00 PM	\$13.38	\$0.86	\$1.04
HPE	Hewlett Packard Enterprise Co.	Wednesday, 8/30	6:00 PM	\$6.99	\$0.47	\$0.48
CRWD	CrowdStrike Holdings, Inc. Class A	Wednesday, 8/30	5:00 PM	\$0.72	\$0.56	\$0.36
HRL	Hormel Foods Corporation	Thursday, 8/31	9:00 AM	\$3.04	\$0.41	\$0.40
CPB	Campbell Soup Company	Thursday, 8/31	8:00 AM	\$2.06	\$0.50	\$0.56
DG	Dollar General Corporation	Thursday, 8/31	10:00 AM	\$9.93	\$2.48	\$2.98
COO	Cooper Companies, Inc.	Thursday, 8/31	5:00 PM	\$0.90	\$3.34	\$3.19
CRM	Salesforce, Inc.	Thursday, 8/31	5:00 PM	\$8.53	\$1.90	\$1.19
CHWY	Chewy, Inc. Class A	Thursday, 8/31	5:00 PM	\$2.76	-\$0.05	\$0.05
AVGO	Broadcom Inc.	Friday, 9/1	5:00 PM	\$8.85	\$10.43	\$9.73
ASO	Academy Sports and Outdoors, Inc.	Thursday, 8/31	10:00 AM	\$1.58	\$2.02	\$2.30

Source: FactSet. Data as of August 25, 2023 as of 8:30 A.M. ET. Times shown in table are in Eastern Time. EPS = earnings per share.

### Risk Considerations

Different investments offer different levels of potential return and market risk. 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. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **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. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic condition.

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.

Additional information available upon request. Past performance is not a guide to future performance. The material contained herein has been prepared from sources and data we believe to be reliable, but we make no guarantee as to its accuracy or completeness. This material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Opinions and estimates are as of a certain date and subject to change without notice.

### Definitions

An index is unmanaged and not available for direct investment.

The 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.

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

The ADP employment change report measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

Building approvals track the number of permits that have been issued for new construction, additions to pre-existing structures or major renovations. These statistics are based on the number of construction permits approved.

Capital goods orders track the value of new orders received during the reference period. Orders are typically based on a legal agreement between two parties in which the producer will deliver goods or services to the purchaser at a future date.

Capital spending tracks investment in or capital expenditures on fixed assets such as buildings, plant, equipment, machinery, etc. These investments are normally made by businesses (or occasionally government).

Consumer confidence tracks sentiment among households or consumers.

The Consumer Price Index (CPI) is a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Continuing claims tracks the total number of people who have filed jobless claims with the appropriate government labor office; typically, in order to receive unemployment benefits.

Durable goods orders track the value of new orders received during the reference period. Orders are typically based on a legal agreement between two parties in which the producer will deliver goods or services to the purchaser at a future date.

Existing home sales tracks the sales of previously owned homes during the reference period.

The Federal Housing Finance Agency (FHFA) House Price Index tracks changes in residential property prices.

Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by industry approach (or output-based GDP) is the sum of the gross value added (output less intermediate consumption) of all industry and services sectors of the economy (at basic prices), plus all taxes less subsidies on products. This concept is adjusted for inflation.

House prices track changes in residential property prices.

Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

Industrial production measures the output of industrial establishments in the following industries: mining and quarrying, manufacturing and public utilities (electricity, gas and water supply). Production is based on the volume of the output.

Initial jobless claims track the number of people who have filed jobless claims for the first time during the specified period with the appropriate government labor office. This number represents an inflow of people receiving unemployment benefits.

The international trade balance measures the difference between the movement of merchandise trade and/or services leaving a country (exports) and entering a country (imports). This measure tracks the value of the merchandise trade balance.

The Job Openings by Industry Total Survey (JOLTS) tracks the number of specific job openings in an economy.

Mortgage approvals track the number and/or value of mortgage loans that have been approved by lenders.

New home sales tracks sales of newly constructed homes during the reference period.

PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Pending home sales tracks signed real estate contracts for existing single-family homes, condos and co-ops that have not yet closed. As such it is a leading indicator for existing home sales.

Personal income or consumer/household income tracks all income received by households including such things as wages and salaries, investment income, rental income, transfer payments, etc. This concept is not adjusted for inflation.

Personal spending or consumer/household spending (also referred to as consumption) tracks consumer expenditures on goods and services. This concept is not adjusted for inflation.

Private sector credit tracks the outstanding amount of credit (or loans) extended to businesses and consumers.

The Producer Price Index (PPI) is a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

Purchasing Managers' Indexes (PMI) track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

S&P CoreLogic/Case-Shiller U.S. National Home Price Index tracks the value of single-family housing within the United States. The index is a composite of single-family home price indices for the nine U.S. Census divisions.

The unemployment rate (or jobless rate) tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

The University of Michigan Consumer Sentiment tracks sentiment among households or consumers.

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