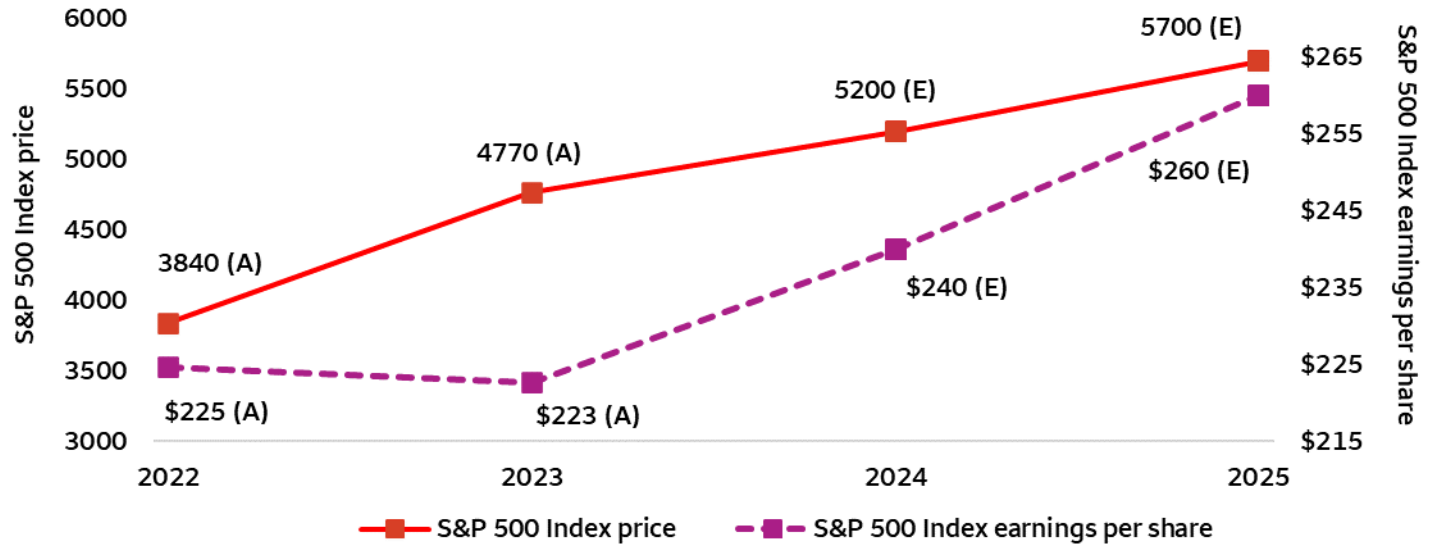


Chart of the Week

Weekly market analysis on key market indexes

May 14, 2024

Can equities pass the baton from valuations to earnings?



Sources: Wells Fargo Investment Institute and Bloomberg. Data as of May 6, 2024. A = actual. E = expected. Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Multiple expansion has driven record-high equity prices, but we expect earnings to take over

S&P 500 Index earnings have barely grown over the past two years, but prices have reached record highs — that means multiples have expanded on optimism of an economic and earnings recovery. However, we expect earnings to be the main driver of returns this year and next, as demonstrated in the chart above. Our forecasts call for earnings to grow in line with prices for year-end 2024 and 2025, a divergence from the recent trend of flat earnings and expanding valuation multiples.

A key factor driving this forecast is our expectation for solid economic growth, which would likely flow directly to equities' top line. We also expect firms' ability to convert those sales into earnings to improve as corporations remain committed to cost cutting and improved efficiencies. This should allow the equity rally to continue next year, after near-term range trading, without further multiple expansion.

What it may mean for investors

Given our expectation that earnings will take the baton from valuations as the key driver of returns in 2024 and 2025, we remain favorable on U.S. Large Cap Equities, which we view as the highest-quality major equity class — specifically, we are attracted to its strong company balance sheets compared to other equity classes, durable pricing power, and resilient growth potential. We would also note that while the S&P 500 Index currently sits very close to the midpoint of our year-end 2024 target range, it is almost 10% below the midpoint of our year-end 2025 target range.

Chris Haverland, CFA; Global Equity Strategist

Excerpted from *Investment Strategy* (May 13)

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

Risk Considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and 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** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

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