

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. Mr. Cronk leads global investment strategy and research including equity, fixed income, real assets, and alternative investments. He also serves as chief investment officer for Wealth and Investment Management, a division of Wells Fargo & Company that includes Wells Fargo Private Bank, Wells Fargo Advisors, Wells Fargo Institutional Retirement & Trust, and Abbot Downing.

4 Reasons for Optimism

“I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis.”

—Abraham Lincoln

Coronavirus is both a public health crisis and an economic crisis. Unfortunately, the two work almost directly against each other. The biological cure of social distancing and containment becomes the economic disease as vast amounts of our consumer-driven economy shut down in an effort to best combat the virus. However, America has always found itself faced with great challenges. And yet, this country has proven many times to be a beacon of courage and resolve to effectively meet those tests head-on. Now the beacon is lit once again, and we must respond. While the challenge is great, I would highlight four reasons for optimism—four twinkles of light inspiring my belief that in the end, we will prevail.

1. We adapt.

As a country, we have shown our resilience many times in the face of past crises. During the darkest hours of the Great Financial Crisis of 2008-09, the events following September 11, 2001, and even two World Wars, many Americans could never imagine things being the same again. But we adapted to our new reality and have a long and successful history of innovating our way out of crises. Already schools and businesses are finding ways to keep learning and commerce moving forward from their homes. Automakers are retooling factories to help meet a drastic shortage of ventilators. Pharmaceutical companies are working at blinding speed on therapeutic solutions and new vaccines. The fashion district in New York City is converting garment production to assist with the shortage of hospital gowns and

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masks, and the arts and fitness communities have switched to online concerts and virtual work out rooms. All across America, the private system is adapting and mobilizing to help the public sector battle this terrible virus. Great crises often begin with fear, and out of that fear can come a unity that bonds us together even stronger.

2. Markets have worked.

While the market reaction has been swift and harsh over the past several weeks, market mechanics continue to function. Markets are repricing for this new and unexpected norm, and while painful, that's what markets do. Circuit breakers have triggered numerous times to create a pause in trading in an effort to cushion large market movements. Liquidity has been challenged, and the Federal Reserve (Fed) has responded numerous times to shore up shallow liquidity pools and keep markets functioning properly. Just to illustrate the speed of response, the Fed forcefully acted in a mere two weeks to the most recent threat. In contrast, it took them months to do so in 2008. Some have suggested closing markets down until this pandemic passes, but we believe open and functioning markets remain essential for companies, investors and liquidity.

3. Policymakers are acting.

While often accused of being slow to engage, Congress appears to be doing the right thing so far. Winston Churchill once said that America "can always be trusted to do the right thing, once all other possibilities are exhausted." But to its credit, and with all due respect to Sir Churchill, Congress is proving him wrong these days. Fully recognizing this is an election year, when partisan politics run deep, Congress has acted with surprising speed. It already has passed an \$8.3 billion fiscal spending package to provide direct resources to the agencies closest to the frontlines, including the Centers for Disease Control (CDC), National Institutes of Health (NIH), and U.S. Food and Drug Administration (FDA). A second bipartisan deal architected by U.S. Treasury Secretary Steven Mnuchin and House Speaker Nancy Pelosi—valued at \$100 billion—passed last week. It includes funding for additional coronavirus tests, paid sick leave, expanded food services, expanded unemployment insurance, aid to states, and tax credits for affected employers. The third and largest deal, likely between \$1 trillion and \$2 trillion of economic stimulus, would send checks directly to Americans, help small businesses, and direct aid to impacted industries like airlines, retail and manufacturing. During these critical days, speed can be more essential than exacting policy, and fortunately Congress is not letting "the perfect be the enemy of the good" as it forms policy.

4. Opportunity on the other side

The U.S. economy came into this crisis the strongest in the world, and we believe that bodes well for how we will emerge. This crisis, different from past ones, is not the making of extreme financial excesses that often took years to work through following prior recessions. As the number of coronavirus cases eventually begin to decline, economic activity may resume quickly. That activity will undoubtedly be different in ways that are difficult to precisely predict. However, sizable pent-up demand from weeks or months of inactivity—coupled with large degrees of monetary and fiscal global stimulus like the world has rarely witnessed—could create an economic payback with tremendous potential for growth. Investors should consider this wisely as they make portfolio changes. Often the best days of stock market return come during some of the darkest hours. For example, looking back over the past 25 years, 8 of the 10 best days for the S&P 500 Index came during the 2008-09 Great Financial Crisis; the other 2 also came during recessions. Looking through this volatility, there are likely to be large opportunities on the other side, in our view, just as there have been following past crises.

This pandemic will not be easily conquered, but neither will America's spirit and tenacity. We have prevailed before during periods of great tragedy and crisis, and we likely will again. It will undoubtedly have a large economic cost, one that we must collectively pay, as the alternative is far worse. However, the most infectious virus still remains human optimism, determination and innovation. Markets and our economy have always shown great resilience. We believe they will recover, and so will our country.

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