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Investment Institute

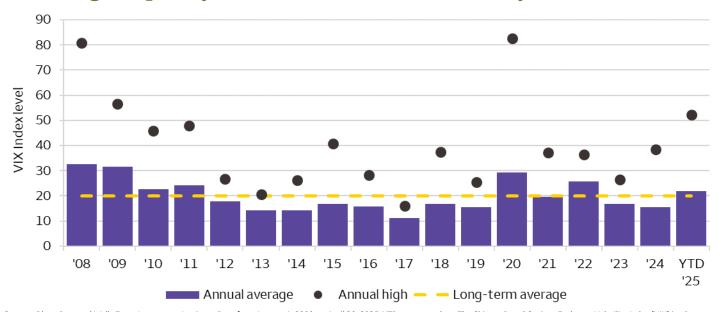
Chart of the Week



Weekly analysis of key themes in markets

May 6, 2025

Focusing on quality amid stock-market volatility



Sources: Bloomberg and Wells Fargo Investment Institute. Data from January 1, 2008, to April 30, 2025. YTD = year-to-date. The Chicago Board Options Exchange Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 Index option prices. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Uncertainty likely to contribute to bouts of above-average volatility throughout 2025

Investors do not like uncertainty, but that's what we have seen a heavy dose of in recent months. As the chart above shows, volatility so far this year (as represented by the VIX Index) has been well above the long-term average and a step above 2024's average level. We expect that trend to continue as markets grapple with geopolitical, monetary policy, and economic growth uncertainties, which may contribute to bouts of above-average volatility throughout the year.

We keep getting the absolutely rational question: "Have we seen the bottom in stocks?" As much as we would like to boldly answer that question with a resounding "yes!" that just isn't the case. Tariff and growth concerns are the main market drivers right now, but there will likely be a few other issues that result in road bumps in the months ahead. We wouldn't be surprised if the S&P 500 Index retested its lows as additional uncertainties create headwinds.

What it may mean for investors

Against policy uncertainty, we favor focusing on quality. We would use the recent rebound to reallocate to our highest-rated asset classes, including U.S. Large Cap and Mid Cap Equities, and quality sectors that emphasize stable balance sheets and good cash flow, such as Information Technology, Communication Services, Financials, and Energy. Our view is that quality allocations should help preserve wealth and offer better growth opportunities as uncertainties finally fade.

Scott Wren, Senior Global Market Strategist

Excerpted from Market Commentary (April 30) and Market Charts (Q2 2025)

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

Risk Considerations

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. **Mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **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.

Definitions

Chicago Board Options Exchange Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 Index option prices.

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

An index is unmanaged and not available for direct investment.

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