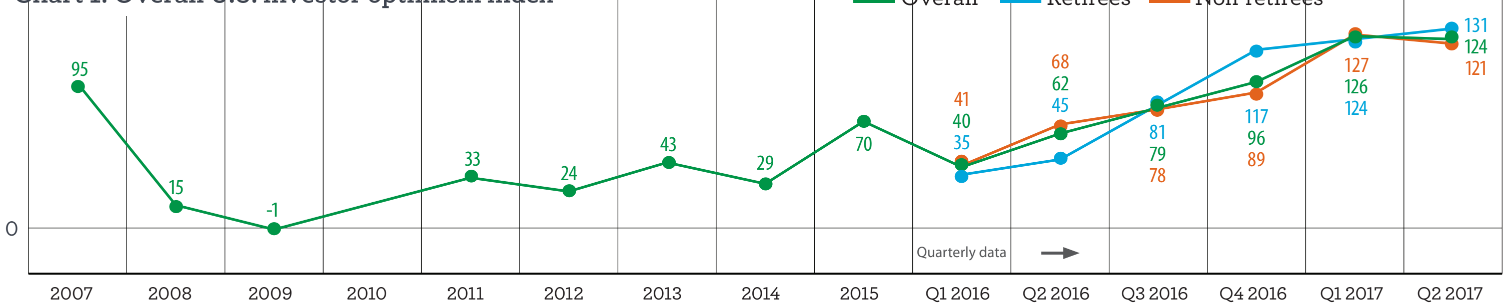
Wells Fargo/Gallup investor and retirement survey; results and implications

WELLS FARGO

Geopolitical risks greater threat to investments than the economy, investors say

While still quite positive relative to the blunted outlook after the recession, the Wells Fargo/Gallup Investor and Retirement Optimism Index held steady near its 16-year high recorded last quarter. Investors are more likely to say they worry about current geopolitical matters harming their investments than worry about harm from the economy. The latest index, which gauges investor optimism, now registers +124, essentially unchanged from +126 in February. This represents a leveling off well below the +178 historical high for investor confidence recorded in January 2000.

Chart 1: Overall U.S. investor optimism index



Note: All Index scores prior to 2016 are for May of the year indicated. The Index survey was dormant in 2010.

Implications: While the index held steady near its 16-year high, this marks the first quarter since Q1 2016 that it did not improve.

Investors rank geopolitical risks top threat for investing climate

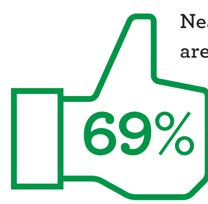
When asked about possible threats to the U.S. investment climate in the coming year, three-quarters of investors (75%) were very or somewhat worried about the impact of the various military and diplomatic conflicts happening around the world. The domestic political climate ranked a close second at 69%. The overall performance of the economy sparked far less concern, with about half (49%) saying they are very or somewhat worried.

"It's good to see optimism staying near its 16 year-high and given recent headlines it's not surprising that investors are more concerned geopolitical risks pose a greater threat to their investments over the economy. While the news may be concerning to investors, it doesn't change the underlying positive fundamentals of the economy," said Brian Rehling, co-head of global fixed income strategy at Wells Fargo Investment Institute (WFII).

Low interest rates preferred; impact of rising rates unnoticed

Investors favor low interest rates, with two-thirds saying they are satisfied with current interest rates. Nearly seven in 10 investors (69%) think low interest rates are better for their financial situation than high rates. Notably, there is a difference by retirement status, with three-quarters (76%) of non-retirees versus 52% of retirees saying they prefer low rates. Conversely, nearly twice as many retirees as non-retirees say they prefer high rates, 39% vs. 21%.

The impact of rising rates



Nearly seven in 10 investors (69%) think low interest rates are better for their financial situation than high rates...

... but two-thirds say they haven't noticed any impact of higher interest rates on their finances.

Despite investors' preference for low rates, two-thirds (66%) say they haven't noticed any impact of higher interest rates on their finances. The rest of investors are split between saying they have noticed a positive (13%), or a negative (14%) impact on their finances.

"The pace at which interest rates have been rising has been so slow, that investors may not feel the heat until it's boiling," said Rehling. "Fed rate hikes while still slow are starting to accelerate. In the current low rate environment, investors may find they have taken on more credit or interest rate risk than is appropriate for their risk tolerance in an attempt to generate yield. It's important to focus on diversifying income sources, regularly check the temperature on your risk tolerance and monitor your portfolio to make sure they are aligned with your financial goals."

Non-retiree versus retiree on impact of rates

While most retirees also report seeing no impact from higher rates, slightly more say they have noticed a positive (16%) versus a negative (9%) impact. By contrast, non-retirees are a bit more likely to say the impact has been negative (17%) than positive (12%).

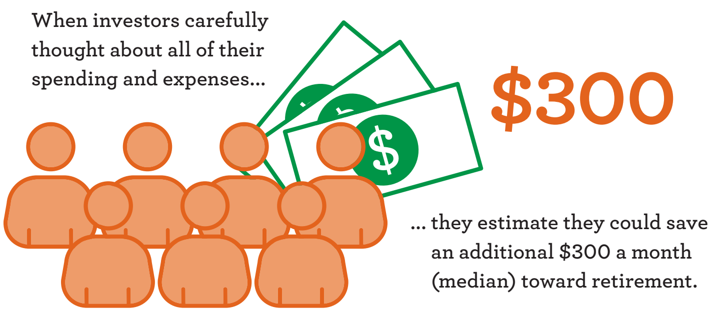
Two-thirds of investors overall say that additional interest rate hikes this year will not compel them to make any changes to their investments. However, nearly a quarter (23%), say they would transfer some money out of stocks and into interest bearing accounts.

"Whatever your age, low rates can hurt savers. With rising rates, the inertia among investors to stick with their investments shows that they may be more comfortable with the risks in the stock market. However, the lack of meaningful rate and/or credit shocks in recent years may have given some investors a false sense of security," Rehling noted.

Investors better poised to save more for retirement

When non-retired investors were asked to think about all of their spending and expenses, they said they could save an additional $300 a month (median) toward retirement, if they made a serious effort to do so. This is up from a $200 a month (median) when non-retired investors were polled on this in late 2014.

Saving more for retirement?



"Whether that extra money is to pay down debt or save for retirement, this is a great sign when investors feel they could save more than in years past. Having a financial plan and staying disciplined can help investors meet their financial expectations," Rehling said.

Investors comfortable with their debt load

As total household debt recently reached a new peak of $12.7 trillion, according to the Federal Reserve Bank of New York, the majority of investors (77%) feel comfortable with the amount of debt they have accumulated over the past several years when interest rates have been low. On the flip side, 21% of investors say they are not comfortable with the amount of debt they may have accumulated given rising interest rates. By asset level, investors concerned about being overextended was twice (32%) as high among those with less than $100,000 in assets as among those with more than $100,000 in assets (15%).

"As rates continue to slowly rise, investors should carefully assess how that may impact them as a consumer (borrower) and investor (saver) and then formulate a plan to navigate through the gradual rate rises. Scaling back spending while prioritizing higher-cost revolving debt can help lessen the impact of higher rates," Rehling said.

About the Wells Fargo/Gallup Investor and Retirement Optimism Index

These findings are part of the *Wells Fargo/Gallup Investor and Retirement Optimism Index*, which was conducted May 4-7, 2017, by telephone. The Index includes 1,005 investors, aged 18 and older, randomly selected from across the U.S. with a margin of sampling error of +/- four percentage points. For this study, the American investor is defined as an adult in a household with total savings and investments of $10,000 or more. About two in five U.S. households have at least $10,000 in savings and investments. The sample size consists of 72% non-retirees and 28% retirees. Of total respondents, 41% reported annual incomes of less than $90,000; 59% reported $90,000 or more. The Wells Fargo/Gallup Investor and Retirement Index is an enhanced version of Gallup's Index of Investor Optimism that provides the historical trend data. The median age of the non-retired investor is 46 and the retiree is 69.

The Index of Investor Optimism had a baseline score of 124 when it was established in October 1996. It peaked at +178 in January 2000, at the height of the dot-com boom, and hit a low of -64 in February 2009. The index first addressed the differences in retiree and non-retiree perceptions in February 2011.