**Investor optimism surges on prospects of a better economy**

**Investor confidence rises further in fourth quarter**

The Wells Fargo/Gallup Investor and Retirement Optimism Index increased in the fourth quarter following solid gains each of the prior two quarters. The index now stands at +117, up from +79 in the third quarter and its highest reading since early 2007 (see Chart 1). The index improved 36 points in November to +117 among retired investors, and 11 points to +89 among non-retired investors.

The fourth quarter survey was conducted November 16 – 20, during the strong post-election stock market rally, but before the Dow Jones Industrial Average crossed the historic 19,000 mark.

**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.

*Wells Fargo Investment Institute, Inc. is a registered investment adviser and wholly-owned subsidiary of Wells Fargo & Company and provides investment advice to Wells Fargo Bank, N.A., Wells Fargo Advisors, and other Wells Fargo affiliates. Wells Fargo Bank, N.A. is a bank affiliate of Wells Fargo & Company.*

**Implications:** Improved investor optimism in the fourth quarter is largely a reflection of Republican exuberance since the election, but confidence was already on the upswing in 2016 and the fourth quarter gain wasn’t out of proportion with what occurred in Q2 and Q3. Recent market performance should help solidify investor confidence, and give investors a bit of a buffer against any modest market pullbacks that may occur.

**Bright economic outlook for 2017**

Of the seven index components, positive expectations for the U.S. economy is the main driver of increased investor optimism in the fourth quarter. Fifty-seven percent of investors, improved over 45% last quarter, are now optimistic about the 12-month outlook for economic growth. Only 27% are pessimistic, down from 35%. This contrasts with the second and third quarters when investor optimism about the stock market was the index component that fueled index gains.

Nearly six in 10 (57%) investors feel positive about where the economy is headed going into 2017, versus about one-third (38%) who say they are “bracing” themselves for an economic downturn (see Chart 2). There are strong political differences in these views as most investors who identify as Republican feel positive about the economy’s direction (79%) while most Democrats are bracing themselves for a downturn (68%).

Slightly more investors identify as or lean Republican than identify as or lean Democratic — 53% vs. 40%.

**Chart 2: Outlook for economy in 2017**

**Investors bullish on the election**

Nearly half of investors, 46%, say the outcome of the presidential and congressional elections makes them more optimistic about the U.S. economy in the coming year; 38% say it makes them less optimistic. Another 15% say the election has had no effect on their expectations for the economy.

Also, even before the stock market broke the 19,000 mark, half of investors predicted the 2016 election would have a positive impact on their net worth while 28% said it will have a negative impact and 19% expected no impact. There is no difference in expectations between investors with $100,000 or more in investments and those with less than that amount.

**Implications:** Although Democrats are far less optimistic than Republicans, investors as a whole tilt positive in their outlook for the economy and their net worth under the new administration, providing a solid basis for investors to not only stay in the market, but expand their investments.
Most investors expect market volatility

Nearly three-quarters of investors (74%) say the stock market will be volatile in 2017, including 21% who expect it to be highly volatile, up slightly from 16% at this time last year (see Chart 3). Another 55% are expecting it to be somewhat volatile, while just 23% of investors say it will not be too volatile.

Chart 3: Investors’ prediction for stock market in the new year

Looking back on 2016, nearly six in 10 investors describe the stock market as either highly volatile (12%) or somewhat volatile (46%), while 39% say it was not too volatile.

Implications: Investors have come to expect stock market volatility. Additionally, since investor optimism about the stock market was the index component that fueled index gains shown in Chart 1, volatility does not seem to dampen investor optimism. Consistent with advice from investment professionals, investors seem to be viewing volatility in terms of what opportunities it may present.

Women more concerned about volatility than men

Asked about their reaction to stock market volatility that has occurred since the 2008–2009 market downturn, 44% of investors say market volatility still bothers them as much as before; 42% say they are better at shrugging it off, and 11% say it doesn’t bother them.

Retirees and non-retirees have similar views about volatility, but there are differences by gender. Men are fairly tolerant with 46% saying they have gotten better at shrugging it off while 39% say volatility still bothers them (see Chart 4). However, attitudes are reversed among women with 48% saying volatility still bothers them and only 38% saying they have gotten better at shrugging it off.

Chart 4: Investors’ response to market volatility

Investors offer a slightly different report about what happened to their income in 2016: 62% say it went up while 10% say it declined. Investors aged 18 – 49 are more likely than those 50+ to say their wages increased this year (69% vs. 52%). Additionally, younger investors are more likely to expect their wages to increase in 2017 (65% vs. 47%).

Working investors expect income growth in 2017

The majority of investors who are currently employed expect that their wages or employment income will increase in the coming year. Just 7% predict their income to increase a lot, but 30% say it will increase a moderate amount and 20% say it will increase a little. Just 5% expect their income to go down.

Chart 5: Employed investors’ income outlook for 2017

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 November 16 – 20, 2016, by telephone. The Index includes 1,012 investors randomly selected from across the country 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 American households have at least $10,000 in savings and investments. The sample size is comprised of 73% non-retired and 27% retirees. Of total respondents, 42% reported annual income of less than $90,000 and 58% of $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 its historical data. The median age of the non-retired investor is 46 and the retiree is 70.

The Index 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 negative 64 in February 2009.

This material has been prepared for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy.

Investing involves risk, including the possible loss of principal. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. Since each person’s situation is different, you should review your specific investment objectives, risk tolerance, and liquidity needs with your financial professional before selecting a suitable savings or investment strategy. Past performance is not a guarantee of future results.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

Investment products and services are offered through Wells Fargo Advisors. Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. Wells Fargo Bank, N.A., is a banking affiliate of Wells Fargo & Company.

© 2017 Wells Fargo Bank, N.A. All rights reserved. ECG-3643002 0117-01830