Rising political uncertainty tends to dampen business confidence

Our outlook for the second half of 2019 is for positive economic growth of varying strength around the world. An economic recession appears unlikely, and the U.S. and emerging economies probably will show stable growth. But European and Japanese economic growth seems comparatively weaker and may not stabilize until political uncertainties around Brexit and trade disputes fade.

Rising political uncertainties (purple line) since early 2018 have constrained economic confidence (orange line) and still seem to be the main economic risk. Fortunately, fiscal and monetary policymakers in the U.S., Europe, and China have added stimulus measures, and more global central banks are likely to cut interest rates. A U.S.-China trade agreement could help restore positive global trade growth, which could benefit Europe and Japan. However, business spending and global trade in materials and industrial goods are likely to remain constrained while the scope of that agreement are unclear.

What it may mean for investors

The second-half calendar is full of possible geopolitical stumbling blocks, consumer spending has downshifted, and business capital spending remains below expectations. While we believe the second half of 2019 does pose better growth momentum, we do not believe now is the time to turn either too aggressive or too conservative with portfolio positioning. Instead, we think now is a much better time for investors to realign their portfolios with their long-term goals, after several quarters of market volatility likely have disrupted that alignment.

This chart was excerpted from the Wells Fargo Investment Institute 2019 Midyear Outlook—“Eyes Forward: Opportunities and Obstacles” June 2019.
Risks 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, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Foreign investing has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with 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. CAR 0619-01519