Friends,

LOWER S&P 500

Attached is Wells Fargo Investment Institute strategist Scott Wren's latest commentary, in which he predicts the S&P 500 will end the year "modestly below current levels". According to Wells Fargo Investment Institute's forecasts this means approx. 4-8% below current levels. Rationale includes an economic recovery that's long in the tooth, and slowing economic fundamentals. Not to mention that Congress seems to be getting nowhere on tax reform and progress is slow on pro-growth fiscal policies. There's no mention of specific catalysts that would increase volatility, and he's not predicting a recession. However, if the legislators can't agree on a spending bill to avoid a shutdown before the rapidly approaching congressional August recess, I wouldn't be surprised to see volatility spike from current nearly-historic low levels.

GOVERNMENT SPENDING

In last week's "Outside the Box", author John Mauldin highlights some interesting economic research by Charles Gave (bio here: http://research.gavekal.com/author/charles-gave). In the attached article, he explores the relationship between economic growth and government spending, across many counties in Europe and North America, ultimately concluding that increased government spending can be benefit to economic growth (think commerce-friendly infrastructure, and institutions that protect private property and intellectual property), but after a certain point, increasing government spending further hampers economic growth. Interestingly, that "certain point" (as a % of GDP) is different for every country, but his analysis suggests that for the US economy we're way past that point, and any increases in US government spending here will only serve to slow growth further.

EMERGING MARKET BONDS

Wells Fargo Bank fixed income strategist Peter Wilson reiterates his recommendation of an even weight allocation in US dollar-denominated emerging market debt. In the attached note, he shows the historical risk-return profile of the USD (aka hard currency) EM bond asset class, which has been one of the best fixed income performers over time. Further, he argues that risks to the asset class are much lower than they were in the early '90s when the asset class last went through significant upheaval and defaults. Consider: most emerging market economies are more diversified and less commodity-driving than they were in the past. Also, the % of hard currency debt vs. local currency debt is much smaller than in the past, suggesting a depreciating local currency should have less impact on national finances than in times past. Personally, I think hard currency EM debt is one of the most attractive areas of the fixed income universe, and I'm investing my own portfolio accordingly.

I hope this helps and you all have a wonderful week!

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Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity

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