WELLS FARGO ADVISORS

Looking Ahead

Dan Wanstreet, CFA – Advice & Portfolio Specialist Team

"*I'm gonna make him an offer he can't refuse*"

- Vito Corleone (*The Godfather)*

Amid a slow period for earnings and economic news, the U.S. equity markets were inundated with a flurry of corporate deals this week. The zeal to deal included no fewer than 10 announced or agreed-upon mergers of U.S. companies valued at more than $1 billion. The Federal Reserve (Fed) also remained on investors' minds, with expectations for a September rate hike fluctuating amid disappointing updates on the data front, a hawkish stance from the European Central Bank (ECB), and commentary from various regional Fed heads.

U.S. Equities

In lieu of a $100 billion mega-deal, investors were hit with a barrage of smaller mergers and strategic partnerships. Spectra Energy (SE $43.98) shares jumped after the company agreed to a $28 billion takeover bid from Canadian pipeline giant Enbridge (ENB $45.73). The agreement will create the largest North American energy infrastructure company. In the Health Care space, Danaher (DHR $79.00) bought molecular diagnostics supplier Cepheid (CPHD $52.46) for $4 billion. In Tech, Hewlett Packard Enterprise (HPE $21.38) will spin-off and merge its non-core software assets with Britain's Micro Focus International Plc in a deal worth $8.8 billion. Meanwhile, chipmaker Intel (INTC $36.44) said it would spin out its cyber security division, formerly known as McAfee, and sell a majority stake in it to investment firm TPG for $3.1 billion. Liberty Media (LMCA $22.01) moved into the fast lane with a deal to buy the cash-rich Formula One Racing for $4.4 billion in cash. In addition to all the announced mergers, speculation ran rampant this week about the possibility of future deals. GW Pharmaceuticals (GWPH $104.78) shares surged more than 25% this week (as of Friday's open) amid takeover rumors. Monsanto shares (MON $108.05) also caught a boost on reports that Bayer AG sweetened its takeover bid to $56 billion (or $127.50/share), raising its offer for a second time in its pursuit to become the world's largest producer of seeds and pesticides.

The zeal to deal was not enough to boost U.S. indices into the green this week, with the S&P 500 set to lose 1% for the week as of Friday's open. Consumer Staples led the losses after a disappointing earnings report from Sprouts Farmers Market (SFM $19.42) inspired widespread losses among grocery chains. The Technology sector also underperformed with Apple (AAPL $105.52) shares coming under pressure after investors and Wall Street analysts were evidently underwhelmed by the company's iPhone 7 announcement. The Energy patch was a bright spot with shares climbing in sympathy with a 5% weekly climb in West Texas Intermediate crude prices. The biggest move came Wednesday when the Energy Information Administration announced the largest weekly drawdown in U.S. crude inventories since 1999. In addition, Saudi Arabia and Russia drafted a joint memorandum in hopes of inspiring a deal to freeze production output. In other news, Western Digital (WDC $53.47) shares benefitted from a positive pre-announcement, while Tractor Supply's (TSCO $69.38) early update on third-quarter earnings led to a sharp reduction in its stock price.

Fed / Bonds / Data

Economic data was light this week after an update on the U.S. labor market last Friday came in below expectations. Headlining the proceedings was an update from the Institute for Supply Management that showed the U.S. services sector expanded in August at the weakest pace in six years. After the release, the probability of an interest rate hike in September fell to 24%, according to Bloomberg data. Despite the recent disappointing data, San Francisco Fed President John Williams said "the economy is in good shape

and headed in the right direction." Williams said raising interest rates makes sense now that the economy is at full employment and "within site" of the central bank's 2% inflation target. In a speech Friday morning, Boston President Eric Rosengren said that "low rates are raising the chance of overheating the US economy," and concluded "If we want to ensure that we remain at full employment, gradual tightening is likely to be appropriate." Fed fund futures rebounded in the wake of these statements, with the probability of a September hike climbing to 36% Friday morning. In bond land, U.S. treasuries lost value this week with the yield on the benchmark 10-year U.S. Treasury note climbing to 1.67% (as of Friday's open) from 1.60% at the close of trading last Friday. The yield on the long-dated 30-year bond climbed to 2.38% from 2.27%.

Overseas

Across the pond, the ECB met this week and decided to leave its benchmark interest rate and stimulus program unchanged. In a speech after the release, ECB President Mario Draghi downplayed the need for extra stimulus measures, saying that the committee did not even discuss extending or adding to its quantitative easing programs. Draghi's hawkish tone contributed to a drop in European bond prices and a 1% weekly loss for the STOXX Europe 600. In the developing world, the MSCI Emerging Markets index climbed 1.5% this week with oil producers leading the charge. The index was up 3% for the week as of Thursday's close, but halved its ascent after North Korea carried out its largest-ever nuclear missile test.

Looking Ahead

Next week will bring the final key U.S. data points ahead of the Fed's September Federal Open Market Committee (FOMC) meeting. A release from the Commerce Department Thursday is expected to show that U.S. retail sales remained flat in August for a second month. Inflation data on Friday is anticipated that consumer prices climbed by 0.1% in August after being unchanged in the month prior. Also on Friday, the University of Michigan will release its first update on consumer sentiment for September. Overseas, the Bank of England (BOE) will set interest rate policy Thursday morning. After cutting rates to the lowest level in the bank's 300-year history in August, analysts expect the BOE to hold tight this month. In Fed news, regional Presidents Lockhart and Kashkari will give the final speeches before a quiet period is enacted in the lead-up to the Sept. 21 FOMC announcement. In earnings, investors will key on Oracle's (ORCL $40.72) profit tally next week to see what it may portend for the upcoming third-quarter reporting season.

Wells Fargo Investment Institute (WFII)

WFII Global Research Analyst Craig Holke and Head Global Market Strategist Paul Christopher published a report titled "Signs of Business Investment Turning the Corner." The strategists noted the lack of business investment has been a considerable headwind for U.S. economic growth. However, common risks remain in the form of further slowing of global growth, continued U.S. dollar strengthening or signs of weakness in domestic consumer spending. The strategists stated that a bottoming in business investment would eliminate the drag on economic growth for the past three quarters. Flat or expanding business investment, combined with strong consumer spending, should strengthen U.S. economic growth in the second half of this year and into 2017.

WFII Global Alternative Investment Strategist Justin Lenarcic published a piece titled "Looking Beyond Corporate Credit to Structured Credit." The strategist pointed out the fundamental backdrop for structured credit is quite different from that of high-yield corporate credit today. A stronger U.S. consumer may continue to support an asset class for which underwriting practices generally have improved significantly since the financial crisis. WFII believes that qualified investors searching for a diversified source of income should consider structured credit as part of a diversified portfolio. However, such investors should expect bouts of volatility, illiquidity, and mark-to-market adjustments.

WFII Co-Head of Global Equity Strategy Sean Lynch wrote a piece titled "AAArgh! Don't be Fooled Again." Following a month of low volatility and market calm, WFII sees several developments on the horizon that could raise equity-market volatility. These events include: unforeseen actions by global central banks, a Fed rate increase and the upcoming domestic elections. WFII believes that this volatility is likely to be focused on the riskier areas of the equity markets, but that it may cross all equity classes. WFII continues to favor U.S. large-cap equities and the Information Technology, Industrials, Consumer Discretionary and Health Care sectors of the market.

WFII Co-Head of Global Fixed Income Strategy Brian Rehling wrote a report titled "A High-Yield Playbook." The strategist stated the high-yield corporate debt sector has performed very well to date in 2016, but

valuations have risen and fundamentals appear to be weakening. In a “lower for longer” rate environment, WFII expects that demand for the higher yields offered by the sector will continue. WFII remains even-weight on the high-yield corporate sector, but will continue to monitor valuations, fundamentals, and market events for any developments that would warrant a change.

Disclaimers

Pricing as of market close on Sept. 8, 2016 unless indicated otherwise.

All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security.

Equity investments are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

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. Because bond prices generally fall as interest rates rise, the current low interest rate environment can increase the bond’s interest rate risk. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. 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.

Alternative investments are speculative and involve a high degree of risk. They are suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of such an investment and for which the investment does not represent a complete investment program. Any offer to purchase or sell a specific alternative investment product will be made by the product’s official offering documents. You could lose all or a substantial amount investing in alternative investment products.

The use of alternative investment strategies such as structured credit, involve significant risks. Structured credit strategies generally aim to generate return via positions in the credit sensitive area of the fixed income markets. The strategy generally involves the purchase of corporate bonds with hedging of the interest exposure. Managers can generally purchase any type of security in the capital structure, including companies suffering financial distress. These instruments can include corporate bonds, mortgages, suppliers’ claims and bank loans. Credit and other derivatives are used to establish the portfolio and for hedging purposes. Such strategies involve taking advantage of mispriced credit exposure at certain points in the term structure of single name credits relative to other points in the same term structure. Positions may use, but are not limited to, traditional fixed income and credit securities, as well as other structured credit products and credit derivatives, such as credit default swaps. The use of alternative investment strategies may require a manager’s skill in assessing corporate events, the anticipation of future movements in securities prices, interest rates, or other economic factors. No assurance can be given that a manager’s view of the economy will be correct which may result in lower investment returns or higher return volatility.

Technology and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Additional information available upon request. Past performance is not a guide to future performance. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee as to its accuracy or completeness. This material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Opinions and estimates are as of a certain date and subject to change without notice.

Definitions
An index is unmanaged and not available for direct investment.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The Institute for Supply Management (ISM), founded in 1915, is one of the largest supply management associations in the world. ISM is a not-for-profit educational association that serves its 45,000 members and professionals and organizations with an interest in supply management in more than 90 countries.

Scheduled Economic Data Releases for Week of September 12, 2016

Monday, Sept 12

Time	Country	Release	For	Consensus	Prior
8:05AM	U.S.	Fed's Lockhart Speaks in Atlanta	--	--	--
9:50AM	U.K.	Bank of England Bond-Buying Operation Results	--	--	--
1:00PM	U.S.	Fed's Kashkari Speaks on Economy and TBTF	--	--	--
10:00PM	China	Industrial Production YoY	Aug	6.20%	6.00%
10:00PM	China	Retail Sales YoY	Aug	10.20%	10.20%

Tuesday, Sept 13

Time	Country	Release	For	Consensus	Prior
2:00 AM	Germany	CPI MoM	Aug F	--	0.00%
4:30 AM	U.K.	CPI MoM	Aug	0.40%	-0.10%
4:30 AM	U.K.	PPI Output NSA YoY	Aug	--	0.30%
5:00 AM	Germany	ZEW Survey Expectations	Sep	--	0.5
5:00 AM	Germany	ZEW Survey Current Situation	Sep	--	57.6
6:00 AM	U.S.	NFIB Small Business Optimism	Aug	94.8	94.6
2:00 PM	U.S.	Monthly Budget Statement	Aug	-$96.5b	--

Wednesday, Sept 14

Time	Country	Release	For	Consensus	Prior
12:30AM	Japan	Industrial Production MoM	Jul F	--	0.00%
7:00 AM	U.S.	MBA Mortgage Applications	9-Sep	--	0.90%
8:30 AM	U.S.	Import Price Index MoM	Aug	-0.10%	0.10%
10:30AM	U.S.	DOE U.S. Crude Oil Inventories	9-Sep	--	--

Thursday, Sept 15

Time	Country	Release	For	Consensus	Prior
4:30 AM	U,K,	Retail Sales Ex Auto Fuel MoM	Aug	--	1.50%
5:00 AM	Eurozne	CPI YoY	Aug F	--	--
5:00 AM	Eurozne	CPI MoM	Aug	--	-0.60%
7:00 AM	U.K.	Bank of England Bank Rate	15Sep	0.25%	0.25%
8:30 AM	U.S.	Current Account Balance	2Q	-$119.8b	-$124.7b
8:30 AM	U.S.	Retail Sales Advance MoM	Aug	0.00%	0.00%
8:30 AM	U.S.	Retail Sales Ex Auto and Gas	Aug	--	-0.10%
8:30 AM	U.S.	Initial Jobless Claims	10Sep	--	259k
8:30 AM	U.S.	Philadelphia Fed Business Outlook	Sep	1.5	2
8:30 AM	U.S.	PPI Final Demand MoM	Aug	0.10%	-0.40%
8:30 AM	U.S.	PPI Ex Food and Energy MoM	Aug	0.10%	-0.30%
8:30 AM	U.S.	Empire Manufacturing	Sep	-1	-4.21
9:15 AM	U.S.	Industrial Production MoM	Aug	-0.20%	0.70%
10:00AM	U.S.	Business Inventories	Jul	0.10%	0.20%

Friday, Sept 16

Time	Country	Release	For	Consensus	Prior
8:30 AM	U.S.	CPI MoM	Aug	0.10%	0.00%
8:30 AM	U.S.	CPI Ex Food and Energy MoM	Aug	0.20%	0.10%
10:00AM	U.S.	U. of Mich. Sentiment	Sep P	90.8	89.8
1:00 PM	U.S.	Baker Hughes U.S. Rig Count	16Sep	--	--

Source: Bloomberg

Data as of September 8, 2016

Scheduled Earnings Releases for Week of September 12, 2016

Monday, Sept 12

Before the Open

Company	Symbol	Price	EPS Est.	Year Ago	Revenue Est. ($MM)
Manchester United	MANU	17.32	$0.04	$0.01	$127.33

After the Close

United Natural Foods	UNFI	$42.21	$0.63	$0.72	$2,217.73

Tuesday, Sept 13

Before the Open

Company	Symbol	Price	EPS Est.	Year Ago	Revenue Est. ($MM)

**** No Scheduled Earnings Releases of Note ****

After the Close

**** No Scheduled Earnings Releases of Note ****

Wednesday, Sept 14

Before the Open

Company	Symbol	Price	EPS Est.	Year Ago	Revenue Est. ($MM)
Cracker Barrel	CBRL	$150.29	$2.13	$1.97	$742.29

After the Close

Ascena Retail	ASNA	$7.91	$0.17	$0.06	$1,770.91
CLARCOR	CLC	$64.78	$0.69	$0.66	$339.00

Thursday, Sept 15

Before the Open

Company	Symbol	Price	EPS Est.	Year Ago	Revenue Est. ($MM)

**** No Scheduled Earnings Releases of Note ****

After the Close

Oracle	ORCL	$40.72	$0.58	$0.53	$8,705.00

Friday, Sept 16

Before the Open

Company	Symbol	Price	EPS Est.	Year Ago	Revenue Est. ($MM)
Piedmont Natural Gas	PNY	$60.13	-$0.10	-$0.10	$168.00
Hain Celestial	HAIN	$36.35	$0.56	$0.55	$753.67
Calavo Growers	CVGW	$69.63	$0.59	$0.54	$252.40

After the Close

**** No Scheduled Earnings Releases of Note ****

Source: Bloomberg/FactSet
Prices as of close on September 8, 2016