

Strategic Insights:

ASG Economic & Market Forecast

Investment Strategy Committee

A monthly report

Economy

The Fed recently revised its economic growth forecast down slightly but says the economy is likely to strengthen in coming quarters. Recent economic data shows the economy continues to expand, but at a slower pace than late last year. The economy may face a lot of headwinds but the underlying economy is healthier today than during the recession. Rebuilding corporate profits and household finances is a slow process that hurts the economy now but sets the stage for healthier economic growth down the road. The economy is entering the midcycle phase of the expansion where the Fed stops adding liquidity. We expect economic growth to average 2.8% this year.

Unemployment

Businesses are still hiring but not as many workers as earlier this year. However, we believe the recent slowdown in job creation is only temporary; the increase in unemployment may be partly due to the labor market is getting better. Many discouraged workers are beginning to look for work again as the job situation improves. Discouraged workers are not counted as employed in the headline unemployment rate until they begin looking for work, at which point, if they don't find jobs, they can add to the unemployment number. We anticipate monthly job growth to average around 200,000 in coming months as the economic expansion continues, and expect the unemployment rate to end the year around 9.0%.

Inflation

We believe inflation is likely to average 3.0% during the next 10-15 years (up from our prior estimates of 2.5%). This recent increase is based on our concerns that policymakers may be willing to live with more inflation while governments struggle with too much debt and the demand for global resources grows. In the near-term, we expect consumer price inflation to be 2.5% in the 12 months ended in December 2011. Inflation was above this rate this spring when the civil war in Libya cut off oil shipments from that country. However, core consumer price inflation remains subdued and energy prices have retreated as the global economy cooled and Saudi Arabia said it would supply more oil.

Quantitative Easing

The Fed's second round of quantitative easing ends in June 2011. After QE2, the Fed will no longer be pumping as much liquidity into the markets but will not begin to drain liquidity yet. We believe the monetary stimulus helped the economy through the early-cycle stage of the recovery but did not cure all of the economy's woes. The end of quantitative easing will be an important test of the economy's resiliency. At this point, it doesn't look like the Fed will initiate another round of quantitative easing. Of course, if some unexpected negative shock occurs, the Fed still has the option to restart large-scale asset purchases again to sustain U.S. economic growth.

Dollar

Sentiment toward the dollar is very negative. We believe the dollar has already discounted a lot of bad news about U.S. debt and deficits as well as risks of excess liquidity from the Fed's easy money policies. At this point, good news could help the greenback more than bad news hurts it. In addition, as the Fed ends QE2, some of the excess liquidity that has fueled the commodity rally and weighed on the dollar could dissipate, which could dampen commodity prices and support the dollar in the months ahead. Nevertheless, we believe the dollar will continue to decline over the long run.

Oil

Saudi Arabia indicated after the June OPEC meeting that they would increase production in the months ahead in order to assure an adequate supply of oil. This suggests that the Saudi's may want to cap the price of oil at least for a while to prevent the global economy from turning down again. Oil prices could slide further if oil supplies increase. Our year-end target for crude oil remains \$95 per barrel.

Interest Rates

For the remainder of 2011, we look for the 10-year Treasury to generally trade in a range between 3.00-4.00%, and we project the 10-year to end the year with a 3.50% yield. We continue to believe long-term interest rates are likely to rise as the economic expansion continues. Therefore, we recommend that long-term investors use the recent rally in bonds as an opportunity to reduce exposure in long-term bonds.

S&P 500

U.S. equity markets are likely to consolidate as investors wait to see if the economy can continue to grow without extra Fed stimulus. Our base-case, year-end 2011 target for the S&P 500 Index remains 1250-1300. A higher level remains possible if revenues accelerate meaningfully in coming quarters. As the stock market consolidates during this midcycle slowdown, we believe investors should follow a balanced equity strategy, and recommend a balance of some cyclical and some defensive sectors.

The information below details Wells Fargo Advisors' Investment Strategy Committee's current forecasts for the economy and markets. It also includes our current recommended asset class weightings as well as equity sector weightings.

Economic and Market Forecast

	<i>as of 6/27/11 unless otherwise noted</i>	2010 <i>year-end</i>	2011 <i>latest</i>	2011 <i>year-end forecast</i>
Real GDP	<i>rolling four quarters</i>	2.8%	2.3% ¹	2.8%
Real GDP	<i>latest quarter % chg. annual rate</i>		1.8% ¹	
Unemployment	<i>end of period/latest</i>	9.4%	9.1% ²	9.0%
CPI Inflation	<i>rolling 12-months</i>	1.5%	3.6% ²	2.5%
Federal Deficit	<i>rolling 12-months</i>	\$1.3 tril.	\$1.3 tril. ²	\$1.4 tril.
Existing Home Sales (SAAR*)	<i>end of period/latest</i>	5.2 mil.	4.8 mil. ²	5.3 mil.
Oil Prices	<i>latest (as of 6/27/11)</i>	\$91.38	\$90.61	\$95.00
Gold	<i>latest (as of 6/27/11)</i>	\$1,420.78	\$1,496.00	\$1,450.00
U.S. Dollars per Euro	<i>latest (as of 6/27/11)</i>	\$1.34	\$1.43	\$1.35
Target Federal Funds Rate	<i>latest (as of 6/27/11)</i>	0.12%	0.12%	0.12%
10-Yr. Treasury	<i>latest (as of 6/27/11)</i>	3.30%	2.94%	3.50%
30-Yr. Treasury	<i>latest (as of 6/27/11)</i>	4.34%	4.30%	4.50%
MSCI EAFE Index	<i>latest (as of 6/27/11)</i>	1658.30	1635.00	1720
MSCI Emerging Markets Index	<i>latest (as of 6/27/11)</i>	1151.38	1113.00	1225
S&P 500	<i>latest (as of 6/27/11)</i>	1257.64	1280.10	1250-1300
S&P Operating Earnings	<i>trailing 4 quarters</i>	\$86.70/shr	\$93.60/shr ¹	\$95.50/shr
S&P 500 Price/Earnings	<i>trailing 4 quarters oper. earnings</i>	14.51	13.68 ¹	13.35

*SAAR - seasonally adjusted annual rate

¹ = data as of first quarter 2011 ² = data as of May 2011

Source: Bloomberg, Wells Fargo Advisors

Investment Strategy Committee Tactical Weightings

Major Markets	Recommended Weighting <i>as of 6/27/2011</i>
U.S. Large-Cap Stocks	neutral
U.S. Mid-Cap Stocks	neutral
U.S. Small-Cap Stocks	neutral
Growth Stocks	neutral
Value Stocks	neutral
International Developed Stocks	neutral
Emerging Market Stocks	neutral
Dollar	neutral
Commodities	neutral
Short-term IG* Bonds	neutral
Intermediate-term IG* Bonds	over
Long-term IG* Bonds	under
International Fixed Income	neutral
High Yield Securities	neutral
REITs	neutral

Equity Sectors	Recommended Weighting	Percent of S&P	Guidance
Consumer Discretionary	Evenweight	10.6%	11.0%
Consumer Staples	Underweight	10.9%	10.0%
Energy	Evenweight	12.4%	11.0%
Financial	Underweight	15.1%	13.0%
Health Care	Underweight	11.9%	10.0%
Industrials	Overweight	11.2%	13.0%
Information Technology	Underweight	17.6%	15.0%
Materials	Overweight	3.6%	4.0%
Telecom	Overweight	3.1%	6.0%
Utilities	Overweight	3.5%	7.0%

Note: weightings may not add due to rounding

Source: Bloomberg, Wells Fargo Advisors

Fixed Income Sectors	Recommended Weighting	Recommended Allocation
U.S. Treasuries	Slight Underweight	34.0%
Agencies	Underweight	7.0%
Mortgage-Backed Sec.	Slight Underweight	12.0%
Corporate Bonds	Slight Overweight	32.0%
Preferred Securities	Evenweight	10.0%
TIPS	Evenweight	5.0%

Source: Wells Fargo Advisors

*IG: Investment-grade - treasuries, agency securities, mortgage-backed securities, corporate & municipal bonds

Note: weightings are relative to current firm asset allocation models

Definitions

The S&P 500 Index consists of 500 industrial, financial, utility and transportation companies with market capitalizations of \$3 billion or more.

MSCI EAFE Index: Compiled by Morgan Stanley Capital International (MSCI), the Morgan Stanley Europe, Australasia and Far East Index is a value-weighted index of the equity performance of major foreign markets. In effect, it is a non-American world index of over 1000 stocks.

MSCI Emerging Market Index: Created by MSCI and designed to measure equity market performance in global emerging markets.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Merrill Lynch High Yield Master II Index tracks the performance of U.S. dollar denominated below investment-grade corporate debt publicly issued in the U.S. domestic market.

An index is not managed and is unavailable for direct investment.

Short-term Fixed Income: Fixed Income instruments that mature in one to six years.

Intermediate-Term Fixed Income: Fixed Income instruments that mature in six to 12 years.

Long-Term Fixed Income: Fixed Income instruments whose maturities are greater than 12 years.

Bond prices fluctuate inversely to changes in interest-rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment.

International Fixed Income: International fixed income securities (bonds) include any type of fixed income investment made in financially established markets outside of the U.S. These instruments may be denominated in U.S. dollars or in foreign currencies. Bonds are promissory notes and usually make a series of interest payments followed by a return of principal at maturity. If sold prior to maturity, the price that can be obtained for a bond may be more or less than face value, depending on interest rates at the time the bond is sold and the remaining term of the bond.

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 asset price volatility.

High Yield: Non-investment grade fixed income securities (rated Ba1 or lower by Moody's and/or BB+ or lower by S&P). These investments are considered to be speculative and are subject to a higher degree of risk.

High-yield bonds, commonly known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher rated bonds. The prices of these bonds may be volatile, and they are generally only suitable for aggressive investors.

International: Financial markets in developed economies outside of the U.S.

Emerging Markets: Financial markets in countries with developing economies. These markets are typically immature compared to those of the world's major financial centers but are becoming increasingly sophisticated and integrated into international markets; they provide potentially higher returns but are intensely volatile.

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 asset price volatility.

REITs: Real estate investment trusts (REITs) trade on the major exchanges and invest in real estate directly, either through properties or mortgages.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Large-Cap Growth: Stocks that have a market cap greater than \$5.2 billion and a price-to-book ratio greater than 2.60.

Large-Cap Value: Stocks that have a market cap greater than \$5.2 billion and a price-to-book ratio less than or equal to 2.60.

Mid-Cap Growth: Stocks that have a market cap between \$1.1-\$5.2 billion and a price-to-book ratio greater than 2.60.

Mid-Cap Value: Stocks that have a market cap between \$1.1-\$5.2 billion and a price-to-book ratio less than or equal to 2.60.

Small-Cap Growth: Stocks that have a market cap less than \$1.1 billion and a price-to-book ratio greater than 2.60.

Small-Cap Value: Stocks that have a market cap less than \$1.1 billion and a price-to-book ratio less than or equal to 2.60.

The prices of small-cap and mid-cap company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Commodities: Basic goods used in commerce that are generally interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services.

Buying commodities allows for a source of diversification for those sophisticated persons who wish to add commodities to their portfolios and who are prepared to assume the risks inherent in the commodities market. Any purchase represents a transaction in a non-income-producing commodity and is highly speculative. Therefore, commodities should not represent a significant portion of an individual's portfolio.

Buying gold, silver, platinum or palladium allows for a source of diversification for those sophisticated persons who wish to add precious metals to their portfolios and who are prepared to assume the risks inherent in the bullion market. Any bullion or coin purchase represents a transaction in a non-income-producing commodity and is highly speculative. Therefore, precious metals should not represent a significant portion of an individual's portfolio.

Important Risks and Disclaimers

Past performance is not a guarantee of future results.

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

Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. All fixed income investments may be worth less than original cost upon redemption or maturity. Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT).

Although Treasuries are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

Any market prices are only indications of market values and are subject to change. The material has been prepared or is distributed solely for informational purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

TIPS have special tax consequences, generating phantom income on the "inflation compensation" component of the principal. A holder of TIPS may be required to report this income annually although no income related to "inflation compensation" is received until maturity.

There are special risks associated with investing in preferred securities. Preferred securities generally offer no voting rights with respect to the issuer. Preferred securities are generally subordinated to bonds or other debt instruments in an issuer's capital structure, subjecting them to a greater risk of non-payment than more senior securities. In addition, the issue may be callable which may negatively impact the return of the security. Preferred dividends are not guaranteed and are subject to deferral or elimination.

There is no assurance that any of the target prices mentioned will be attained. Any market prices are only indications of market values and are subject to change.

Wells Fargo Advisors is one broker/dealer affiliate of Wells Fargo & Company; other broker/dealer affiliates of Wells Fargo & Company may have differing opinions than those expressed in this report. Contact your financial advisor if you would like copies of additional reports.

Investment and Insurance Products: ▶NOT FDIC Insured ▶NO Bank Guarantee ▶MAY Lose Value

Wells Fargo Advisors is the trade name under which Wells Fargo & Company provides brokerage services through two registered broker-dealers: Wells Fargo Advisors, LLC, Member SIPC, and Wells Fargo Advisors Financial Network, LLC, Member SIPC. Each broker-dealer is a separate non-bank affiliate of Wells Fargo & Company.

H.D. Vest Investment ServicesSM, Member SIPC is a non-bank subsidiary of Wells Fargo & Company, and an affiliate of Wells Fargo Advisors, LLC and Wells Fargo Advisors Financial Network, LLC.
©2011 Wells Fargo Advisors, LLC. All rights reserved. CAR: 0611-5113