

Brian Jacobsen: While volatility's been low, there've been significant changes in market leadership in 2017. We expect this environment of disruption to continue. That's why we're talking about pivoting toward emerging investment opportunities with experts who lent perspective to our 2017 Midyear Insights, and, takeaways from our capital market strategists.

Brian: We start with municipal bond manager, Lyle Fitterer, who looks beyond the headlines for catalysts of change.

Lyle Fitterer: I think there always has to be a catalyst. Has something happened recently that's caused bonds to cheapen? Has the story changed in a situation where the bonds are trading cheap? The story has changed, it's now getting better, and the rating agencies are going to recognize that and you can potentially see an upgrade, or, other investors will come into the marketplace. It could also change in that valuations got extremely unattractive.

Brian: So are there any examples of places you think you think you could pivot towards now?

Lyle: Sure, well I think you have to look beyond the headlines. And for us, when we're researching a credit, if it's a place like Illinois, what we're looking at is always the economic backdrop. How is the economy actually performing within the state of Illinois, or specifically, within the city of Chicago? The city of Chicago really drives what goes on in the state of Illinois. And the city of Chicago, we think, has been doing reasonably well. Construction activity is very high, the economy is growing, they've actually been adding jobs—so in this case, and negative news could actually turn out to be positive news in that it creates the catalyst for them to act.

Brian: Lyle, thank you so much for being here.

Lyle: Thank you.

Brian: Equity manager, Ann Miletti, assesses the private market value of a company when pivoting toward opportunities.

Ann Miletti: We use our process to understand where there're opportunities in the marketplace. And so we have a private market value approach to investing in public securities. So, what we want to do is really try to understand the economic value of every business that we're getting involved with—much like if we were going to buy the company. At the end of the day, we're buying a stock so we have to understand the trading ranges. That process often helps us understand and leads us to pivot to areas of the market they may be under appreciated by other investors.

Brian: Can you provide us with examples of where that might be happening?

Ann: Sure. There are two areas of the market that are standing out to us that seem to be trading at discounts to that private market value. Selectively, in energy, we like some of the companies there, particularly the companies that are drilling for oil in those low-cost, shale basins, in companies that have good balance sheets. The other area is, selectively, within banks as well. As you know, they had this nice trade after the election—that trade has faded off—and we do think that most of the banks, based on our process, show that they have not incorporated interest rate hikes for the remaining part of the year. So there's some attraction there as well.

Brian: Great, well thank you so much taking some time for us Ann.

Ann: Thank you.

Brian: Tom Ognar seeks longer-term secular ideas, particularly when disruption drives opportunity for growth stocks.

Tom Ognar: Well the biggest opportunity tends to be when larger secular change can drive a multi-year investment thesis. And then, on top of that, if you get an economy that's more stable, almost like one we're in, where there's low to moderate growth, not very volatile, you're often seeking those longer-term secular opportunities. And so with that, what we're seeing, the biggest opportunity, is technology disrupting a lot of different industries. So while they might not be, technically, classified as technology, they are using technology to disrupt a number of industries.

Brian: Can you point to an example?

Tom: Probably the most obvious example, and the biggest impact right now, is going on in the car and how much semiconductor and software content right now is in the car. And it's dramatically up from what it was 5 to 10 years ago. But you're seeing that everywhere. You're seeing that in refrigerators, you're seeing that with toasters, you're seeing that with Nest thermostats. So more and more, what I would call, "the internet of things," is taking over our everyday lives, really driving the demand for semi-conductors.

Brian: Fascinating, thank you so much Tom.

Tom: Thank you Brian.

Brian: As we wrap up, our capital market strategists, Jim Kochan and John Manley, join us for key takeaways, welcome.

Jim Kochan: You're welcome, thank you very much.

Brian: Jim, fixed income has looked pretty choppy. How does that factor into pivoting toward emerging investment opportunities?

Jim: Well, you're right, Brian. The fixed-income markets have been choppy. They're likely to remain so. In this environment with market yields as low as they are, it's extremely important that the managers have a high degree of flexibility. They need to be able to take advantage of credit anomalies when they emerge. They need to be able to adjust durations in response to economic fundamentals as they see them. This is extremely important in a type of an economic environment and market environment we envision for the remainder of 2017.

Brian: Jim, thank you. And John, your thoughts—with all the economic, political, and technological changes in play.

Manley: You've got to find the disruptors. You've got to find the people who are changing things and get in front of that. You've got to recognize that before the street does. There are a lot of things going on right now, I don't think politics will matter all that much. Watch for changes and try to play them.

Brian: Very good, Jim and John, thank you.

John: Thanks Brian.

Brian: What you've seen here are highlights of our 2017 Midyear insights—we encourage you to download your own copy of our paper by visiting wellsfargoassetmanagement.com. Until next time, I'm Brian Jacobsen, stay informed.