

Special Commentary — September 9, 2021

The Budding Potential of Hispanic Americans for the U.S. Economy

Summary

The economy has changed at light speed over the past 18 months, sparing little attention for any drivers of growth besides COVID and the policy response to the pandemic. However, most forces shaping the economy are significantly slower moving, although no less potent. Among these forces is the burgeoning economic prowess of the U.S. Hispanic and Latino community.

Over the past decade, Hispanic Americans were the primary driver of labor force growth, registered above-average income gains, and accounted for a growing share of spending. Recent trends suggest Hispanics are likely to exert an even greater influence on growth over the coming decade. Compared to the broader population, the U.S. Hispanic population is significantly younger and faster-growing, while at the same time becoming increasingly educated. To commemorate National Hispanic Heritage Month, we look at the increasingly important footprint of Hispanic Americans on the economy.

- **At a time when demographics are weighing heavily on the economy's potential growth rate, Hispanics accounted for half of the country's population gain over the past decade.** Data from the recently released decennial census showed that the population in the United States grew by only 7.4% between 2010 and 2020, the slowest growth rate since the Great Depression years of the 1930s. However, the number of individuals who identify as Hispanic or Latino rose by 23% during the past decade, and roughly one in five individuals now identifies as Hispanic or Latino.
- **Hispanic Americans are significantly younger than the broader population.** The median age of Hispanics is about 30 years old, a full 11 years younger than the non-Hispanic population, and the birth rate among Hispanic women exceeds the national birth rate.
- **Struggling to find workers? Look to Hispanic Americans.** Two-thirds of the growth in the U.S. labor force between 2010 and 2019 came from workers identifying their ethnicity as Hispanic. Demographers expect Hispanics to account for more than half of overall U.S. population growth for a third straight decade in the 2020s, and there is significant scope for labor force participation to rise among Hispanic women. Therefore, Hispanic workers will be a critical source of labor in the coming years.
- **Educational attainment is on the rise.** Seventy-five percent of Hispanic adults now have at least a high school education, up from 64% in 2010. College completion has also jumped, with the proportion of adults with at least a bachelor's degree rising to nearly 21% at present from less than 14% in 2010.
- **Income and wealth among Hispanics are growing faster than the broader population, making the community a large driver of spending.** The increase in educational attainment is undoubtedly helping to boost household income. Real median income for Hispanic households rose at an average rate of 2.2% per annum between 2010 and 2019, faster than the 1.5% rate for the nation as a whole. Median family wealth grew nearly three times faster than the typical U.S. household last decade as well, setting up Hispanics to become an even larger share of spending in the years ahead.
- **The Hispanic community is on track to play a major role in the U.S. housing market over the next decade.** Hispanics are on pace to account for about 40% of growth in the total number of American households over the next 10 years.

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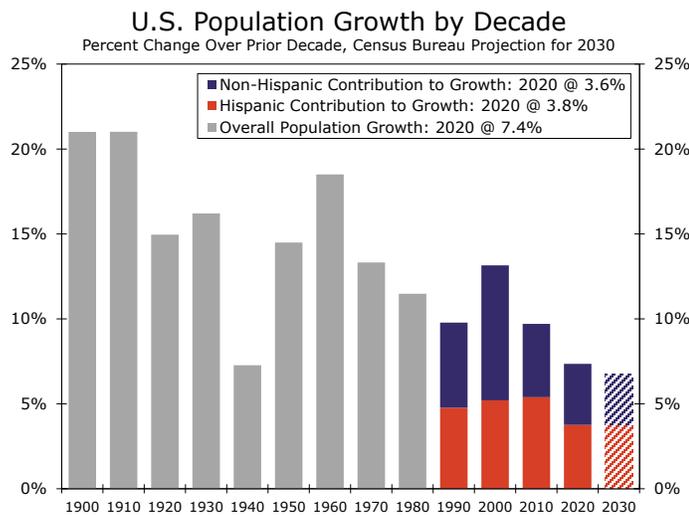
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Hispanics and Latinos: A Vital Source of U.S. Population Growth

The 2020 Census showed that population growth in the United States weakened during the past decade to its slowest pace since the Great Depression years of the 1930s. Between 2010 and 2020, the total U.S. population increased just 7.4%. Yet, overall population growth over the past decade would have been even weaker were it not for more impressive trends among major racial and ethnic groups. Notably, the number of individuals identifying as Hispanic or Latino leapt 23% between 2010 and 2020. Although Hispanics represented only 16% of the total U.S. population at the beginning of the decade, they accounted for half of the country's total population growth over the next 10 years. (Figure 1). There are now more than 62 million individuals of Hispanic or Latino heritage living in the United States, and they comprise nearly 19% of the total population today.¹

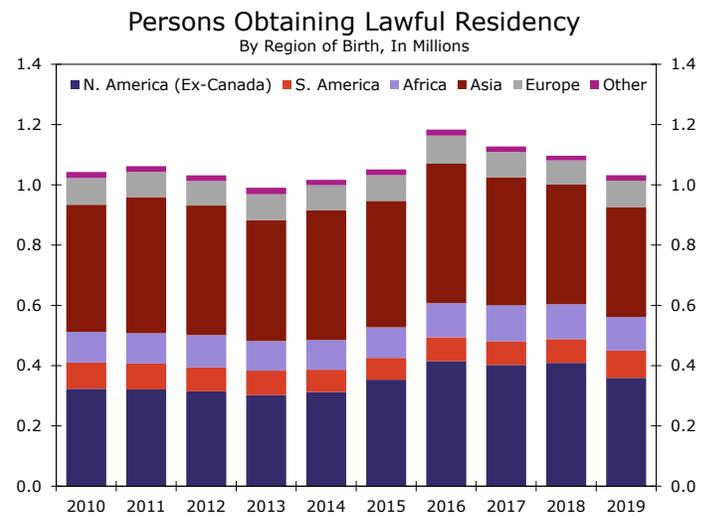
Nearly one in five individuals in the United States today is of Hispanic origin.

Figure 1



Source: U.S. Census Bureau and Wells Fargo Securities

Figure 2



Source: U.S. Department of Homeland Security and Wells Fargo Securities

The strong rate of population growth among Hispanics has been driven by a number of factors. First, this group tends to be younger than the general population. In 2019, the median age of Hispanics was about 30 years, a full 11 years younger than the non-Hispanic population. With a smaller share of the group's population in their advanced years of life, the death rate among Hispanics is lower than for non-Hispanic Whites and non-Hispanic Blacks.² At the same time, a greater share of Hispanic women are in their child-bearing years, and their birth rate is higher than among all women ages 15-44.³ Although one in five individuals in the overall population identify as Hispanic, one in four young Americans (i.e. 19 years or less) is of Hispanic origin. Furthermore, Hispanics continue to account for a significant share of immigration. Data on unauthorized immigration can be imprecise, but more than 40% of new, lawful permanent residents have come from Latin America over the past decade (Figure 2). Looking ahead, demographers at the U.S. Census Bureau expect Hispanics to account for more than half of overall U.S. population growth for a third straight decade in the 2020s (Figure 1).

The Hispanic population is younger than the overall population.

These demographic trends have important economic implications. Namely, a country's potential rate of economic growth is essentially the sum of its labor force growth rate and its underlying rate of productivity growth. There is a high degree of correlation between population growth and labor force growth, and as we describe in the next section, labor force growth in the United States in recent years has been driven primarily by Hispanics. In short, Hispanic Americans are becoming an increasingly influential source of economic growth in the United States.

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But the profile of this large and diverse group is also changing, which will influence economic trends across the country. For starters, an increasing share of the Hispanic population is being born within the United States. Just over two-thirds (67%) of the country's Latino population in 2018 was born in the United States, up from 60% in 2007.⁴ As discussed in further detail below, the median level of income among Hispanic households has grown faster than the national average, driven in part by rising educational attainment among Hispanic Americans. These changing circumstances within the Hispanic

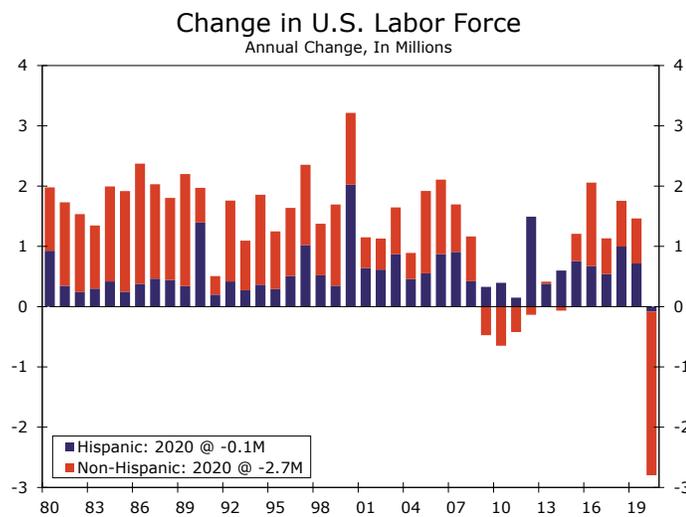
population along with the sheer size of this group will influence the path of employment, spending and the housing market in the coming years, subjects to which we now turn.

Workin' It

As a growing share of the U.S. population, it is not surprising that Hispanics have also become a larger percentage of the U.S. labor force over the past decade. From 2010 to 2020, Hispanics grew from 14.8% to 18.0% of the workforce. But this seemingly small rise in the share masks the overwhelming contribution that Hispanics made to labor force growth over that period. That is, Hispanics accounted for a stunning 91% of the increase in the labor force over the past decade (Figure 3). Not only is population growth among Hispanics stronger than among other ethnic groups, but they are more likely to participate in the labor market. Prior to COVID, the overall rate of labor force participation among Hispanics had pulled 4.4 points ahead of non-Hispanics. The gap widened slightly further in 2020 as Hispanics were less likely to drop out of the labor force last year (Figure 4). Even if the pandemic-distorted year of 2020 is omitted, Hispanics accounted for two-thirds of the growth in the U.S. labor force between 2010 and 2019.

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Figure 3

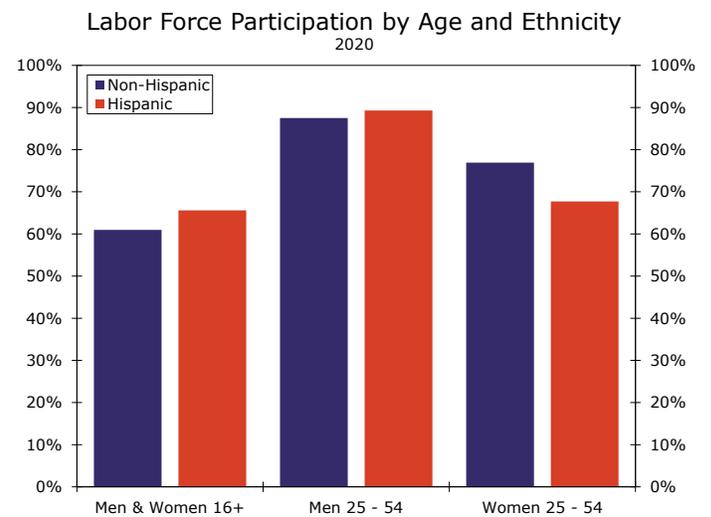


Source: U.S. Department of Labor and Wells Fargo Economics

The higher overall rate of labor force participation rate among the Hispanic population, however, largely reflects a younger age profile. Forty percent of the country's non-Hispanic population has aged beyond their "prime" working years (i.e., 25-54 years of age), when labor force participation begins to decline sharply. In contrast, only 23% of Hispanics are older than 54. Controlling for age reveals different working patterns between Hispanic men and women and the broader population. Hispanic men are *slightly more* likely to be in the labor force than the typical American male for all but the very youngest (16-19) and very oldest (70+) cohorts, and workforce participation among prime-age Hispanic men has held up relatively well during the pandemic. Relative to February 2020, the labor force participation rate among prime-age Hispanic men is down only 0.8 percentage points compared to 1.3 points among all prime-age males. Employment among Hispanic men has fallen less severely than among non-Hispanic males, because a higher share of the former works in production, transportation and residential construction, occupations that have benefited from the sharp rise in spending on goods and housing since COVID struck.

In contrast, Hispanic women are much less likely to be in the labor force than other women their age, which reflects, at least in part, factors such as historically lower educational attainment and more children.⁵ The pandemic has driven an even bigger wedge between the participation rate of Hispanic women and their non-Hispanic peers, however. Hispanic women are more likely to work in high-contact service occupations such as hospitality and personal care, where employment has declined more than twice the rate of all occupations. Furthermore, the marked drop in job opportunities along with childcare obligations as schools went remote—Hispanic children were less likely to be enrolled

Figure 4



Source: U.S. Department of Labor and Wells Fargo Securities

The rate of labor force participation among Hispanic men is higher than among non-Hispanic males.

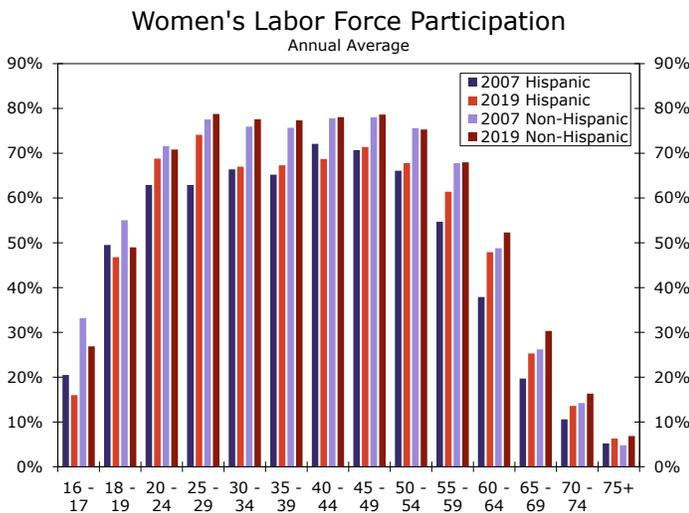
in schools open fully to in-person learning last school year—contributed to a sharper decline in labor force participation among prime-age Hispanic women over the past 18 months.⁶

Yet prior to COVID, the female labor force participation rate was rising with Hispanic women leading the charge. Between the business cycle peaks of 2007 and 2019, the gaps in labor force participation between Hispanic and non-Hispanic women narrowed for nearly every major age group. The improvement among young women in their 20s is especially notable (Figure 5). The higher working rates of young Hispanic women can be traced to the favorable education trends that will be discussed in more detail subsequently. Education is positively associated with participation, and Hispanics' rising educational attainment improves employment and labor force attachment. Delayed childbearing and fewer children on average also have made it easier for more young women to stay in the labor force. The birth rate of U.S.-born Hispanic women tumbled 25% between 2000 and 2017, nearly twice as fast as among Black women and seven times the pace of non-Hispanic Whites.⁷ Labor force participation among older Hispanic women, above the age in which they are most likely to have young children in the house, also made significant strides in catching up to their non-Hispanic peers over the past cycle.

Therefore, what is past is not necessarily prologue when it comes to the lower labor force engagement among Hispanic women. The existing gap in participation suggests there is significant scope to raise labor force participation among Hispanic women. With the aging population shaving approximately one-fourth of a percentage point per year off of the overall U.S. labor force participation rate, rising labor force participation among Hispanic women could provide much needed support to the labor supply. If participation rates among Hispanic women were to close half of the 2019 gap between non-Hispanic women of the same age cohort over the remainder of the current decade, then Hispanic women would offset roughly half the drag that population aging is set to have on the overall U.S. labor force participation rate over the rest of the decade. In sum, higher labor force participation among Hispanic women has the potential to offset erosion in the potential rate of U.S. economic growth that is set to occur, everything else equal, in coming years.

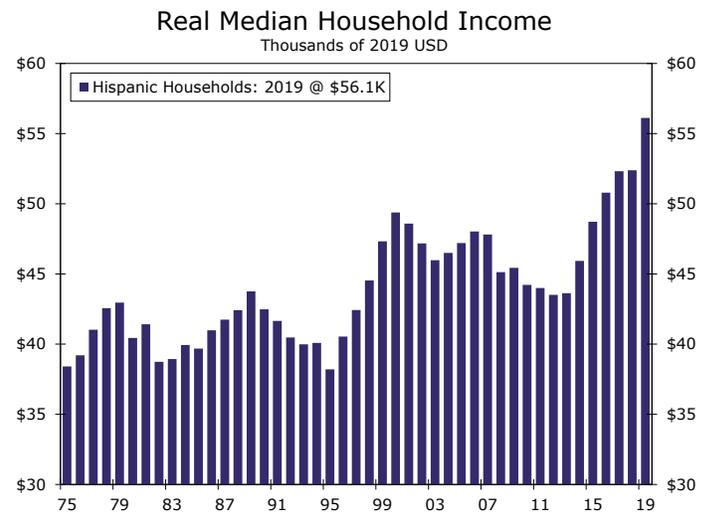
There is significant scope to raise labor force participation among Hispanic women.

Figure 5



Source: U.S. Department of Labor and Wells Fargo Securities

Figure 6



Source: U.S. Census Bureau and Wells Fargo Securities

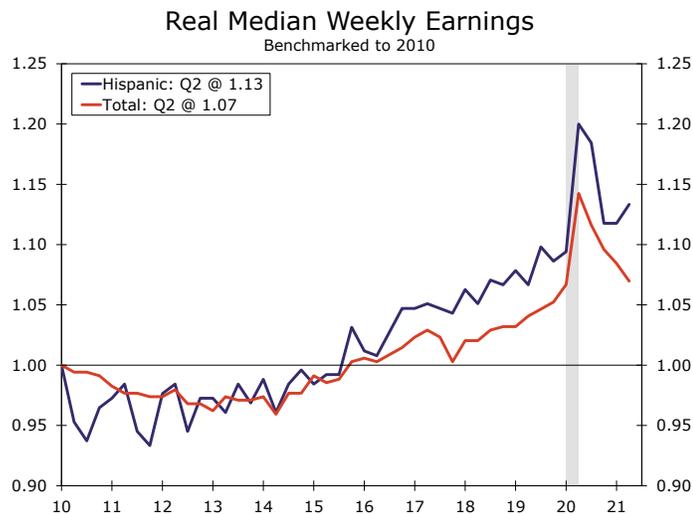
Household Income Growth Outpacing the Pack

Growing job experience is translating into rapid income gains for Hispanic households. Real median income among Hispanic households was \$56K in 2019 (Figure 6). Although still below the national average of nearly \$69K, Hispanic household income was closing the gap. Between 2010 and 2019, real median income for Hispanic households rose at an average rate of 2.2% per annum, faster than the 1.5% rate for the nation as a whole, and this trend appears to have continued more recently. Real median weekly earnings for Hispanic full-time workers were up 6.3% in the second quarter of 2021 relative to the same period in 2019, significantly outpacing the 2.8% increase realized by all workers (Figure 7).

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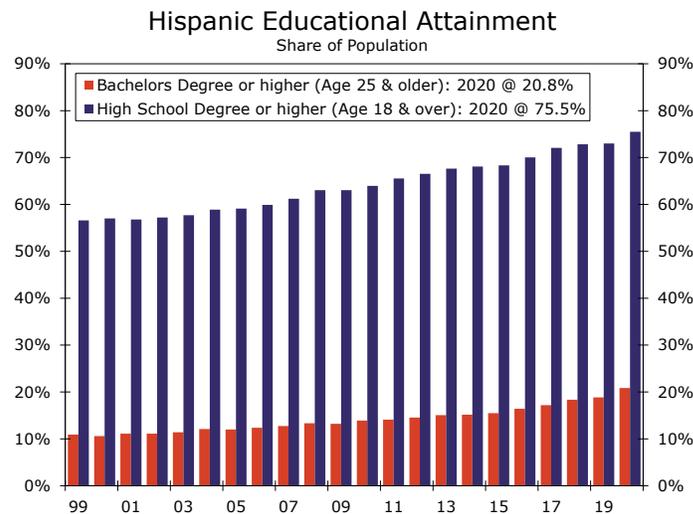
A rise in educational attainment is undoubtedly helping to boost real income growth among Hispanic households. The share of Hispanics having at least a high school diploma rose from 64% in 2010 to 75% in 2020, thereby narrowing the gap with non-Hispanic Whites by eight percentage points (Figure 8).⁸ College completion has also jumped, with the proportion of adults with at least a bachelor's degree rising to nearly 21% at present from less than 14% in 2010. The income-education dynamic can create a virtuous circle whereby higher educational attainment leads to stronger income growth, which then leads to even higher educational attainment, etc. In short, growth in household income among Hispanic Americans should remain solid during the current decade.

Figure 7



Source: U.S. Department of Labor and Wells Fargo Securities

Figure 8



Source: U.S. Census Bureau and Wells Fargo Securities

Strong Income Growth = Strong Growth in Consumer Expenditures

The benefits of stronger income growth extend well beyond Hispanic households to the entire economy. According to the Consumer Expenditure Survey (CES) that is compiled by the Bureau of Labor Statistics, direct spending among Hispanic households totaled nearly \$1 trillion in 2019 (latest data available). Although representing just 11.8% of total direct consumer expenditures, the share is up from 10.5% in 2010.

Aggregate spending among Hispanic households totaled nearly \$1 trillion in 2019.

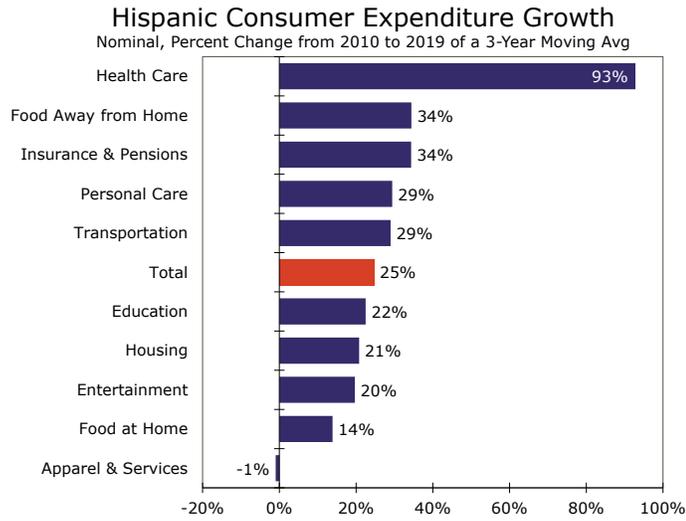
There is evidence to suggest, however, that Hispanic consumer spending should outpace other demographic groups in the decade to come. For one, growth in Hispanic spending appears to be outpacing non-Hispanic spending more recently. Between 2016 and 2019, consumer spending by Hispanic households rose at an average annual rate of 3.6%, stronger than the 3.0% rate for non-Hispanic households. Furthermore, the age structure of the Hispanic population is younger than average. Consumer outlays tend to rise with age before peaking around the age of 45 to 54 years old. Hispanic consumer spending will likely continue to grow rapidly as, in addition to stronger population and income growth, more of this group enters their prime-spending years. In other words, Hispanic households are likely to be a larger driver of overall U.S. consumer spending, and hence overall GDP growth, over the next decade.

The CES also shows how the buying patterns of Hispanic households have evolved over time. As shown in Figure 9, the three-year moving average of aggregate Hispanic expenditures on healthcare nearly doubled between 2010 and 2019, making it the fastest growing component of household spending over the past decade. Transportation expenditures, which represents the second-largest share of outlays, rose almost 30%, with net outlays on vehicle purchases (new or used) accounting for most of that gain. Hispanic expenditure on food away from home, insurance & pensions and personal care also increased solidly, while growth in education, housing, entertainment and food at home was more moderate. At the other end of the spectrum, expenditures on apparel & services were little changed.

When compared to all households in the United States, Hispanic households currently tend to devote a higher share of spending to housing, transportation and food, and relatively less on insurance & pensions, healthcare, entertainment and education (Figure 10). If, as recent trends suggest, real

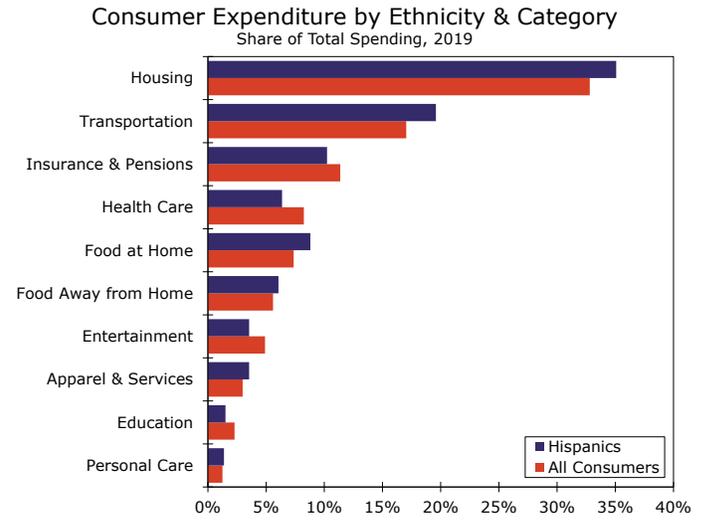
median income among Hispanic households continues to close the gap with all American households, then it seems reasonable that Hispanic buying patterns will migrate toward the overall U.S. shares. In other words, Hispanic expenditures on insurance & pensions, healthcare, entertainment and education could post even faster growth in coming years than they did in the past decade, which would be welcome news to providers of these goods and services.

Figure 9



Source: U.S. Department of Labor and Wells Fargo Securities

Figure 10



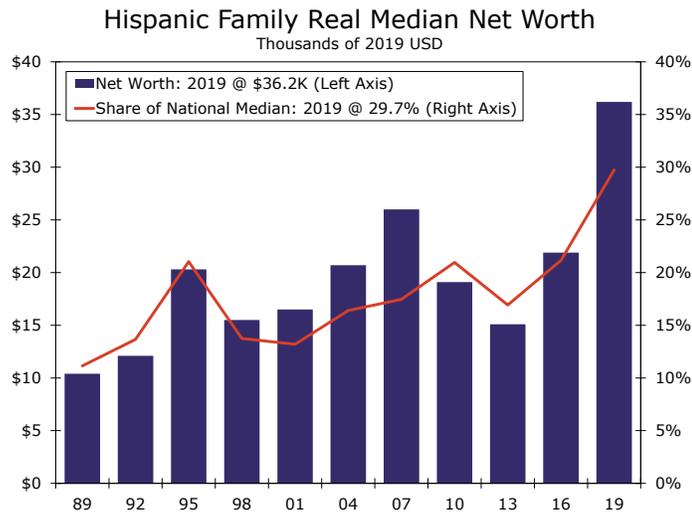
Source: U.S. Department of Labor and Wells Fargo Securities

Narrowing the Wealth Gap

Stronger income growth and more Hispanics moving into their prime-earning years also raises the prospect of more wealth building. Data from the Federal Reserve show that the median net worth of Hispanic households in 2019 was only 30% of the national median. This wealth gap is due to a number of factors, including inter-generational transfers, homeownership and access to tax-sheltered savings plans. A lower percentage of Hispanic Americans at present have parents who have a college degree, and compared to most other demographic groups, Hispanics are less likely to receive an inheritance.⁹ Along similar lines, Hispanics are less likely to have access to, and participate in, employer-sponsored retirement plans. The retirement plan ownership rate for Hispanic families in their peak earning years of 35-54 was just 28% in 2019. Among those that do have access an employer-sponsored plan, just 34% of Hispanic families participate in retirement plans.¹⁰

Yet while still severe, the wealth gap narrowed meaningfully over the past decade. The median net worth among Hispanic Households rose 90% between 2010 and 2019 even after adjusting for inflation (Figure 11). That compared to a 34% increase in real wealth among all households has helped drive the wealth gap to its lowest point since the Federal Reserve's data began in 1989. Looking forward, there is good reason to believe Hispanic households will continue to build wealth at a solid rate. Although it may be some time until Hispanics begin to benefit from inter-generational transfers, retirement plan participation is bound to improve as higher rates of educational attainment are followed by higher incomes and greater access to full-time jobs in industries that offer employer-sponsored benefit plans.

Figure 11

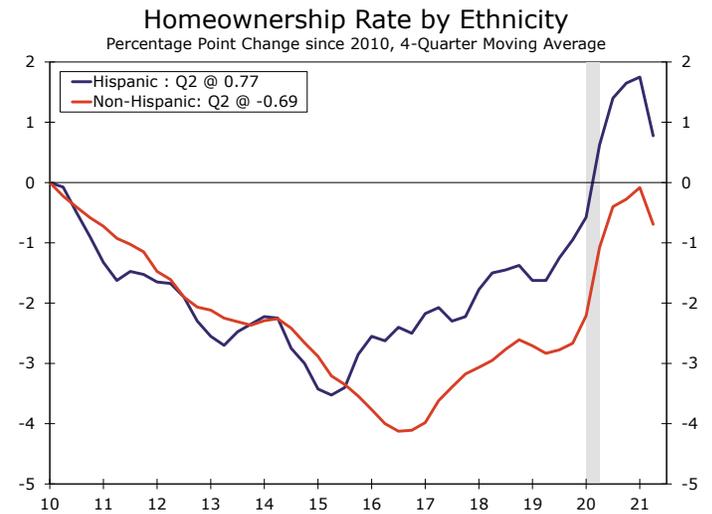


Source: Federal Reserve Board and Wells Fargo Securities

Another reason for optimism with regard to Hispanics' overall wealth-building prospects is that the community has made great strides in homeownership over the past decade. Housing has long been a major channel through which individuals build wealth. Historically, owning a home yields strong financial returns relative to alternative investments. Of course, purchasing a home does not guarantee an increase in wealth, but a large body of research suggests a positive association between homeownership and wealth accumulation.¹¹ The homeownership rate for Hispanic households was 47.5% in the second quarter of 2021, below the average non-Hispanic homeownership rate of 58.3%. However, Hispanic households are narrowing the gap. As shown in Figure 12, the Hispanic homeownership rate fell in the aftermath of the housing bust and the subsequent deep recession of 2007-09, but recovered more quickly than the rate among non-Hispanics.

These positive housing trends are likely to persist. According to Freddie Mac, there were 8.3 million "mortgage ready" Hispanic households in 2019.¹² Although overall household formation, which is one of the key drivers of demand for housing, has generally been lackluster in the country since the housing bust earlier this century, Hispanic household formation has been a notable exception. As of 2020, there were 17.7 million Hispanic households, a 33% increase compared to 2010. What's more, Hispanic households have grown at an average 1.8% per year between 2015 and 2020, almost four times as fast as the 0.5% rate of non-Hispanic households (Figure 13). Under a scenario in which the average rates of growth for both Hispanics and non-Hispanic households remain similar to recent history, Hispanics are on pace to account for almost 40% of growth in the total number of American households over the next decade. Assuming the positive trends in labor force, income and household growth hold, the Hispanic community is on track to play a major role in the U.S. housing market over the next decade.

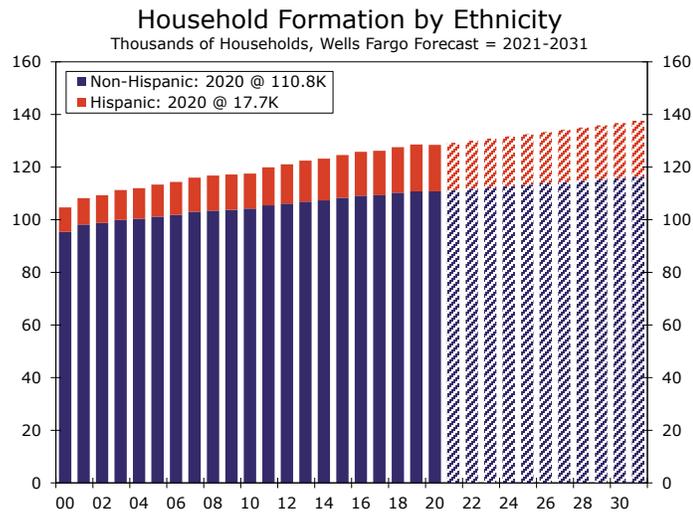
Figure 12



Source: U.S. Census Bureau and Wells Fargo Securities

Hispanics are on pace to be responsible for about 40% of the growth in total households over the next decade.

Figure 13



Source: U.S. Census Bureau and Wells Fargo Securities

Conclusion: Hispanics Will Be a Pivotal Driver of U.S. Growth this Decade

The rate of population growth in the United States, which slowed to an eight-decade low over the past 10 years, would have been even weaker had the number of Hispanic Americans not risen by 23%. Today, roughly one in five Americans identifies as Hispanic or Latino. Furthermore, Hispanics accounted for two-thirds of the growth in the U.S. labor force growth between 2010 and 2019. Given the young profile of the Hispanic population in the United States, the shares of the overall population and the labor force that are accounted for by Hispanics should continue to grow. There appears to be significant scope to raise labor force participation among Hispanic women.

Because a country's potential rate of economic growth is determined by its underlying rate of productivity growth and the growth rate of its labor force, Hispanics are becoming more important in terms of the United States' long-run economic outlook. Strong income gains among Hispanic households, which are being bolstered by employment growth and higher educational attainment, should help to support growth in overall consumer spending in coming years. These income gains should also help Hispanic households build wealth in coming years and play a major role in the outlook for the U.S. housing market.

Endnotes

¹ The term "Hispanic" refers to a person who speaks Spanish or who is descended from Spanish-speaking people. The term "Latino" refers to someone from Latin America, including Brazil where the predominant language is Portuguese. For simplicity, we use the term "Hispanic" to refer to individuals who identify as either Hispanic or Latino. ([Return to Section](#))

² Age-adjusted death rates for Hispanics 25 years and older declined to 42% less than non-Hispanic Blacks and 31% less than non-Hispanic Whites. Retrieved from "[Mortality Trends by Race and Ethnicity Among Adults Aged 25 and over: United States, 2000–2017](#)." ([Return to Section](#))

³ According to the [National Center for Health Statistics](#), there were 65.3 births per 1,000 Hispanic women ages 15-44 compared to 58.3 among women of all races and origins in 2019. ([Return to Section](#))

⁴ Jens Manuel Krogstad and Luis Noe-Bustamante. "[Key facts about U.S. Latinos for National Hispanic Heritage Month](#)." *Pew Research Center*, September 2020. ([Return to Section](#))

⁵ Paula England, Carmen Garcia-Beaulieu and Mary Ross. "[Women's Employment among Blacks, Whites, and Three Groups of Latinas: Do More Privileged Women Have Higher Employment?](#)" *Gender and Society*, Volume 18, Number 4, 2004, pp. 494–509. ([Return to Section](#))

⁶ The [Institute of Education Sciences](#) found that 28% of Hispanic fourth graders were fully remote in May 2021, compared to 14% of white fourth graders. ([Return to Section](#))

⁷ Gretchen Livingston. "[Hispanic women no longer account for the majority of immigrant births in the U.S.](#)" *Pew Research Center*, August 2019. ([Return to Section](#))

⁸ Despite trailing other races in educational attainment, a growing rate of Hispanic educational attainment has narrowed high school graduation and college education attainment gaps. Richard Fry, Jesse Bennett and Amanda Barroso. "[Racial and ethnic gaps in the U.S. persist on key demographic indicators.](#)" *Pew Research Center*, January 2021. ([Return to Section](#))

⁹ Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling and Joanne W. Hsu. "[Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances.](#)" FEDS Notes. Washington: *Board of Governors of the Federal Reserve System*, September 2020. ([Return to Section](#))

¹⁰ Ibid. ([Return to Section](#))

¹¹ Laurie S. Goodman and Christopher Mayer. "[Homeownership and the American Dream.](#)" *Journal of Economic Perspectives*, Volume 32, Number 1, Winter 2018, pp. 31-58. ([Return to Section](#))

¹² Freddie Mac defines "mortgage ready" as having a FICO score equal to or above 620, a debt-to-income ratio less than or equal to 25, no foreclosures or bankruptcies in the past 84 months and no severe delinquencies in the past 12 months. Retrieved from the "[2020 State of Hispanic Ownership Report.](#)" ([Return to Section](#))

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