



Global Investment Strategy Team

Guidance change

Forecast change

Allocation change

## Positive economic surprises drive target revisions

### Forecast changes

- **Global economy:** We are raising our 2026 U.S. gross domestic product (GDP) growth forecast and lowering our fourth-quarter U.S. unemployment rate estimate to account for early 2026 economic momentum. The U.S. economy likely will outpace the main global regions, but we also see improving fundamentals in both emerging and developed economies. Our changes include some ongoing disinflation in emerging economies. These changes also imply revisions to some of our 2026 regional and global targets.
- **Fixed income:** We still anticipate two additional Federal Reserve (Fed) interest rate cuts later in 2026. However, rising U.S. Treasury security issuance and economic improvement should raise long-term yields. We are raising our 2026 10-year and 30-year U.S. Treasury yield target ranges by a quarter point and a half point, respectively, implying a wider spread between short- and long-term interest rates this year.
- **Currency exchange rates:** Even though U.S. financial market fundamental trends remain attractive to foreign investment, the hedging that these investors increasingly require is creating a larger headwind, and we are revising our U.S. dollar exchange rate targets to show euro appreciation, yen depreciation, and overall modest depreciation in the U.S. Dollar Index.
- **Equities:** Market movements and improved earnings trends prompt our higher year-end price and earnings targets for select asset classes. The new targets reflect expectations for broadening market strength in 2026.
- **Real assets:** Continued spending on technology and infrastructure, plus increasing policy uncertainty, lead us to raise our 2026 Bloomberg Commodity Index and gold targets. However, we are lowering our oil price targets, as we believe excess global supply will limit price upside even more than we previously projected.

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**Table 1. 2026 target revisions**

<b>Global economy<sup>1</sup></b>	<b>New 2026 targets</b>	<b>Previous 2026 targets</b>
U.S. GDP growth	<b>2.9%</b>	2.4%
U.S. CPI inflation <sup>2</sup>	2.8%	2.8%
U.S. unemployment rate <sup>3</sup>	<b>4.5%</b>	4.9%
Global GDP growth <sup>4</sup>	<b>3.1%</b>	2.5%
Global inflation <sup>4</sup>	<b>2.6%</b>	2.8%
Developed-market GDP growth <sup>5</sup>	<b>1.9%</b>	1.7%
Developed-market inflation <sup>5</sup>	2.5%	2.5%
Eurozone GDP growth	<b>1.2%</b>	0.9%
Eurozone inflation <sup>2</sup>	1.8%	1.8%
Emerging-market GDP growth	<b>4.0%</b>	3.0%
Emerging-market inflation	<b>2.7%</b>	3.0%
<b>Fixed income</b>	<b>New 2026 year-end targets</b>	<b>Previous 2026 year-end targets</b>
Federal funds rate	3.00-3.25	3.00-3.25%
10-year U.S. Treasury	<b>4.25-4.75%</b>	4.00-4.50%
30-year U.S. Treasury	<b>5.00-5.50%</b>	4.50-5.00%
<b>Global equities</b>	<b>New 2026 year-end targets</b>	<b>Previous 2026 year-end targets</b>
S&P 500 Index	7400-7600	7400-7600
S&P 500 Index EPS	\$300	\$300
Russell Midcap Index	4200-4400	4200-4400
Russell Midcap Index EPS	\$215	\$215
Russell 2000 Index	<b>2,700 - 2,900</b>	2500-2700
Russell 2000 Index EPS	\$85	\$85
MSCI EAFE Index	<b>3,100 - 3,300</b>	2800-3000
MSCI EAFE Index EPS	<b>\$180</b>	\$175
MSCI EM Index	<b>1,500 - 1,700</b>	1350-1550
MSCI EM Index EPS	<b>\$100</b>	\$90
<b>Currencies</b>	<b>New 2026 year-end targets</b>	<b>Previous 2026 year-end targets</b>
Dollar/euro exchange rate	<b>\$1.17-\$1.21</b>	\$1.10-1.14
Yen/dollar exchange rate	<b>¥156-160</b>	¥148-152
ICE U.S. Dollar Index <sup>6</sup>	<b>95-99</b>	98-102
<b>Real assets</b>	<b>New 2026 year-end targets</b>	<b>Previous 2026 year-end targets</b>
WTI crude (\$ per barrel)	<b>\$60 - \$70</b>	\$65-\$75
Brent crude (\$ per barrel)	<b>\$65 - \$75</b>	\$70-\$80
Gold (\$ per troy ounce)	<b>\$6,100-\$6,300</b>	\$4,500-\$4,700
Bloomberg Commodity Index	<b>325 - 345</b>	270-290

Targets are based on forecasts by Wells Fargo Investment Institute as of February 4, 2026, and provide a forecast direction over a tactical horizon through 2026. Bolded values indicate change from previously published values. GDP = gross domestic product. CPI = Consumer Price Index. EPS = Earnings per share. WTI = West Texas Intermediate. 1. Average percent change from the same period a year ago, unless otherwise noted. 2. December-to-December change. 3. Three-month average, as of the fourth quarter, percent of labor force. 4. Weighted average of developed country and emerging-market forecasts. 5. Weighted average of U.S. and other developed-country forecasts. 6. The ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, composed of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc. A higher index value indicates dollar appreciation.

**Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

## Summary

Our target changes mainly reflect that the fourth-quarter U.S. economic slowdown we expected did not develop. Instead, a rapid spending pace appears to have spilled over into 2026. We are still counting on the four pillars of support to power another year of above-average growth and reduce the unemployment rate: lower short-term interest rates; large tax refunds; broadening artificial-intelligence- (AI-) related investment spending; and deregulation. We also are raising our 2026 emerging- and developed-market GDP growth forecasts due to a combination of late-2025 acceleration in spending across multiple regions.

In addition, we now expect longer-term rates to move higher in tandem with stronger U.S. economic growth and rising U.S. Treasury security issuance. These yield target changes imply a wider spread between short- and long-term yields, which is still consistent with our guidance to favor investment-grade maturities in the three- to seven-year range.

Our stronger U.S. and global GDP targets support higher year-end price targets for U.S. Small Cap Equities, Developed Market Equities, and Emerging Market Equities. We have also increased our 2026 earnings targets for Developed and Emerging Market Equities but have left unchanged our targets for U.S. Small Cap Equities, reflecting our continued concerns that the benchmark consists of many non-earning companies. Our guidance remains unchanged.

We expect foreign investors to continue buying U.S. financial assets, as they did in 2025, but the sequence of January 2026 U.S. domestic and foreign policy surprises suggests potential for even more surprises to come and, consequently, even more foreign currency hedging than our current 2026 targets imply. Weighing the dollar's strength (foreign buying) and weakness (currency hedging), we still expect a mostly stable dollar in 2026, but increased hedging likely will locate that stability slightly below our previous target level.

Our revisions for economic growth and additional U.S. policy uncertainty lead us to raise our 2026 Bloomberg Commodity Index and gold targets. Despite these positive trends for real assets, we are lowering our oil target, as we expect excess global supply to limit performance.

## A more advantageous starting point for 2026 U.S. growth with key tailwinds intact

Strong momentum at the start of 2026 has prompted us to raise our full-year 2026 U.S. economic growth target (see Table 1 for all target changes). Growth rates clocking in more than twice the post-World War II average in 2025's third and, likely, fourth quarters were driven by resilient consumer spending and by the ongoing AI investment boom, with added help from a narrower trade deficit. The economy's strong momentum exiting 2025 overcame headwinds that included the longest government shutdown on record, slowing job growth, moderating wage inflation, and recession-like levels of consumer sentiment. A series of Fed interest-rate cuts last fall also contributed to green shoots in more interest-sensitive sectors like manufacturing.

We are still counting on four pillars of support to power another year of above-average economic growth in 2026, and we expect these forces to provide a constructive backdrop for financial assets this year:<sup>1</sup>

1. Monetary stimulus adding cash to the economy and lowering borrowing costs, supporting small businesses and hiring
2. Fiscal stimulus, encompassing individual and corporate tax cuts; a Supreme Court ruling potentially striking down many of the 2025 tariffs that may also generate tariff refunds
3. Broadening AI-driven investment spending
4. Cumulative business-cost savings from deregulation

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1. For more detail on these trends, please see our 2026 Outlook report, "Trendlines over headlines", December 9, 2025.

Our lower fourth-quarter U.S. unemployment rate estimate reflects stronger economic growth that likely reinforces business incentives to keep and even add workers. We continue to expect that tightened border controls will restrain labor-force growth.

We are maintaining our 12-month Consumer Price Index (CPI) inflation target for December 2026 because we believe cooling services prices will continue to drive disinflation and counter a modest uptick in trade-sensitive core goods prices due to tariffs. What's more, strong productivity gains are becoming more evident, the result of strong economic growth and technology investment. Digitalization, further AI absorption into the economy, and a continued shift to labor-saving equipment also should underpin productivity and the disinflation trend. Productivity gains allow workers to produce more each day, which tends to lower the average cost of goods and help counter other cost increases, like tariffs.

### A more constructive outlook for overseas growth, centered on emerging markets

Overseas, we are raising our 2026 emerging-market growth forecast. First, we note China's surprising pivot toward export-led growth during the latter part of 2025 and more aggressive fiscal stimulus. Export promotion has been a counterweight to the government's efforts to reduce industrial capacity as a means of combatting ongoing deflation. We continue to believe a tougher trade environment, tied to protectionism by the U.S. and other developed-market economies, will prompt China to unleash more broad-based stimulus measures to stoke weak domestic consumer spending in the coming year. We also see green shoots from China's high-tech spending boom, which rivals that of the U.S. and increasingly counters the country's ongoing structural challenges.

Second, we believe overall emerging-market growth supports have strengthened while disinflation remains intact. We expect the AI-related investment spillover in much of Asia to carry through this year. There may also be potential upside to exports from early global efforts to mitigate the effects of U.S. tariffs by diversifying trade away from the United States. Emerging-market inflation likely will be restrained by moderate growth in global trade, fiscal restraint tied to budget limitations, and China's slow emergence from deflation.

We expect the eurozone's economic recovery to gain traction this year but face headwinds. Increased European defense and infrastructure spending should underpin growth this year, and European exports may find some new support by rotating exports away from the U.S. We think several challenges may constrain growth, however. The European Central Bank's latest rate-cutting campaign appears to be in the rearview mirror, for now, limiting further support to credit-sensitive housing and manufacturing. Outsized budget deficits in several eurozone economies should constrain growth, too. Likewise, Japan's economy may benefit from proposed tax cuts and government stimulus. However, a tilt to higher interest rates, the structural government budget deficits, and population decline remain challenges. In all, we expect inflation in other advanced economies to register below the U.S. rate. That is partly due to the generally narrower scope of their tariff increases and to the greater exposure of these trade-sensitive economies to the direct and indirect fallout from tariff increases on export and domestic demand.

### Fed easing cycle continues later in the year

The Fed left interest rates unchanged at its January meeting, observing that inflation remains above the Fed's target level and the unemployment rate shows signs of stabilizing. In our view, the Fed's current leader is unlikely to cut rates in the first half of this year. The president recently nominated Kevin Warsh to lead the Federal Reserve once Jerome Powell's term expires in May. We believe Warsh will work to build enough consensus within the committee to move the federal funds rate toward what many members consider a neutral level, near 3.00%.<sup>2</sup> Therefore, we are leaving our federal funds interest rate target range for year-end 2026 unchanged, implying two quarter-point rate cuts before year end.

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2. The neutral federal funds rate is a level of interest that policy makers expect will neither raise inflation nor inhibit full employment.

## The yield curve steepens further, supported by higher economic growth

The near-term path of interest rates depends heavily on the state of the economy and the subsequent actions from the Fed. We expect short-term U.S. Treasury rates to decline later in the year in tandem with the decline in the Fed's policy interest rate. However, we now expect that a faster economic pace will raise longer-term interest rates. An increase in the premium investors require to hold a rising supply of U.S. Treasury securities should add upward pressure to yields.

With this outlook, we are increasing our year-end 2026 10-year and 30-year U.S. Treasury yield targets by a quarter point and a half point, respectively. These changes allow a wider spread between short- and long-term interest rates, and, in turn, the wider spread aligns with our preference for intermediate-term fixed income. In our opinion, income will remain the biggest component of total fixed-income return in 2026.

## Policy uncertainty likely now to offset economic support for the U.S. dollar

The wider economic growth differential we expect in favor of the U.S. economy over other developed-market competitors favors our outlook for a stable U.S. dollar exchange value against other major currencies. We expect continued robust demand for U.S. dollar-denominated assets and see no evidence that foreign investors are abandoning the dollar. Quite the contrary — foreign investment in U.S. financial markets in the 12 months through November 2025 (latest data available) reached a record \$1.6 trillion inflow, according to U.S. Treasury statistics.

But we see the dollar's stability at a slightly lower level than previously and perceive that growing U.S. policy uncertainty is the main reason for the change. Specifically, we see clear support for the dollar from foreign investor buying of U.S. securities. But in January, foreign policy surprises correlated with slippage in the dollar's value. During 2025, we observed this sequence around announcements of new tariffs and other foreign policy changes. Policy changes — and especially uncertainty about future changes — increased foreign investors' currency hedging on their U.S. positions.

When foreign investors invest in U.S. markets, they can hedge their dollar exposure by agreeing to sell dollars (typically to a bank) at a future date and at a specific exchange rate. The cost is based on short-term interest rates. Hedging thus introduces some dollar weakness (forward selling), and in 2025, hedging increased when policy surprises sparked uncertainty about tariff impacts and about any future tariffs. The point is that increased policy uncertainty leads to greater hedging, which is just another way to sell the dollar and push its future exchange value lower. The lower U.S. interest rates we continue to expect lower the cost of hedging and increase its attractiveness.

On balance, the strong U.S. economy should remain a solid support for the dollar, but we now see potential for the pace of domestic and foreign policy surprises to accelerate and lead foreign investors to increase hedging. These two opposing trends should have opposite impacts on the dollar. We foresee a roughly stable dollar, but January's combination of domestic and foreign policy surprises suggests increased hedging. This should leave the dollar's stability intact, though with a modestly lower exchange value.

Hedging is likely to be a stronger support for the euro than the yen, bolstered by growing eurozone defense spending, so we are taking our year-end euro target range higher against the dollar. However, conditions appear less favorable for the yen. In our view, the new government's attempts to cut taxes and add to Japan's very large debt level should discourage investors.

### Fine-tuning equity targets

Our updated economic growth targets, as well as market movements and earnings trends, require a few modest adjustments to our year-end 2026 target ranges for U.S. Small Cap Equities, Developed Market Equities, and Emerging Market Equities. These adjustments do not accompany any asset class guidance changes, and we remain favorable on U.S. Large Cap and Mid Cap Equities and unfavorable on U.S. Small Cap Equities. In international markets, we prefer long-term target weightings (that is, a neutral rating) on both Developed Market ex.-U.S. Equities and Emerging Market Equities.

We are increasing our 2026 earnings and price target for our Developed Market Equities benchmark, the MSCI EAFE Index. Our forecast for improved global economic growth indicates stronger earnings, especially in the benchmark's largest two sectors by market capitalization, Financials and Industrials. These two also have unique supports: Financials from a wider spread between short- and long-term interest rates, and Industrials from the long-awaited bump up in European defense spending. Our target revision for a slightly stronger euro also should support investment returns to U.S. dollar-based investors in Developed Market Equities.

The earnings and price outlook also has improved for Emerging Market Equities, in our view, so we have raised our 2026 earnings-per-share and price target range for our benchmark, the MSCI Emerging Markets Index. In addition to a more stable dollar and stronger global growth, we believe the benchmark's transition from commodities and low-cost manufacturing to emphasizing the local consumption and technology sectors, especially AI, is positive for this equity class. Political and structural risks remain, however. We are keeping our neutral rating, but we believe that earnings and sentiment trends have passed pessimistic extremes, and we await the signs of sustainable improvement.

While our current earnings targets have not changed for our U.S. Small Cap Equities benchmark, the Russell 2000 Index, the lower borrowing costs and stronger economy we expect should justify a higher price-to-earnings multiple for the credit-dependent group. As a result, we have increased our 2026 year-end target range. However, it is not time yet for a rating upgrade. Our caution remains that the many non-earning companies in the Russell 2000 Index benchmark could weigh more on this asset class than on others, and we retain our unfavorable rating.

### Real assets target changes — Raising gold and commodity targets

The prospect for lower short-term interest rates and the potential to hedge against accelerating policy surprises prompt us to raise our 2026 gold target. These conditions should encourage further global central bank gold purchases. We view the combination of these factors as demand tailwinds that will likely push gold prices beyond our previous target range. Therefore, we are raising our 2026 gold target range.

However, a word of caution is in order. Central-bank purchases slowed in 2025, while retail gold purchases accelerated rapidly, especially into exchange-traded funds. Historically, retail investors have included speculators, who could sell reflexively on headlines that themselves may only be speculative. As more such traders join, the potential for periodic sharp pullbacks can increase. A good illustration was the 9% single-day drop in the spot gold price on January 30, 2026, triggered by news of a nominee for the Chair of the Federal Reserve Board.

In conjunction with raising our gold target, a more positive economic outlook prompts us to raise our 2026 Bloomberg Commodity Index target. We still foresee a durable trend in the growing demand for metals in emerging automation technologies and to build (or rebuild) power generation and transmission infrastructure to power those technologies. Stronger demand than we had forecast in late 2025 likely will drive the Bloomberg Commodity Index moderately higher in 2026.

Despite the broad economic strengths that we expect in 2026, we are lowering our year-end West Texas Intermediate crude oil and Brent crude oil price targets. While stronger-than-expected economic conditions have historically coincided with higher oil prices, we believe headwinds of excess global supply and spare production

capacity will likely overshadow the potential impacts from demand growth and keep a lid on prices. In 2025, OPEC+<sup>3</sup> accelerated its planned production growth by unwinding 2.2 million barrels per day of supply cuts in a matter of months. Late in 2025, the group announced plans to unwind another tranche of production cuts through 2026, totaling 1.6 million barrels per day, which could be resumed after a pause in the first quarter of 2026. This supply growth is significant, in our view, and should more than offset the potential demand growth from an improving economic environment.

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3. OPEC+ consists of the countries in the Organization of the Petroleum Exporting Countries. The “plus” countries include Russia, Kazakhstan, Mexico, Oman, Azerbaijan, and others.

## Risk Considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. 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. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investing in **gold**, silver or other precious metals involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance.

## Definitions

An index is unmanaged and not available for direct investment.

**Bloomberg Commodity Index** is comprised of 22 exchange-traded futures on physical commodities and represents 20 commodities weighted to account for economic significance and market liquidity.

**Consumer Price Index (CPI)** produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

**MSCI EAFE Index** is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

**MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

**U.S. Dollar Index** measures the value of the U.S. dollar relative to majority of its most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

**Russell Midcap® Index** measures the performance of the 800 smallest companies in the Russell 1000 Index.

**Russell 2000® Index** measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

**S&P 500 Index** is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

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