WELLS FARGO
Investment Institute

Institute Alert

Timely Commentary

First analysis of issues or topics that may affect investor portfolios **December 18, 2025**

Doug Beath
Global Equity Strategist

Paul Christopher, CFA
Head of Global Investment Strategy

Technology headline noise

What's moving markets

- After a November 20-December 11 gain of 5.5%, the S&P 500 slid by 2.6% between December 12-17, led by the Information Technology and Communication Services sectors, down 5.68% and 2.58%, respectively. Over that latter period, the Nasdaq 100 lost 4.0% and the Dow Jones Industrials Average Index, 1.7%.
- These volatility episodes characterized most of November, and the current episodes seem to have a similar trigger, namely, significant daily ups and downs focused on technology firms that are building-out artificial intelligence (AI).
- The main catalyst for the drawdown has been the renewed scrutiny of several highly leveraged, large software companies focused on the AI infrastructure buildout and their commitments (and possible delays) and has spread to other AI-related stocks.

Our perspective

- We see durable technology spending trends, beyond AI, which respond to global demand growth in industrial automation, aerospace and defense, pharmaceuticals, semiconductors, and power grid generation and transmission.
- Areas of overlap are likely – e.g., between semiconductors and power grid updates, but also between automation and defense – and any of these areas may incorporate AI.
- While these trends appear to have momentum, we believe it is not possible to know just how quickly the future pace of adoption may grow.
- We see an information asymmetry: A continued technology spending trend appears clear, but investors may periodically want to check in on the rate of adoption. Investors did pause to check after the second- and third-quarter earnings seasons (July - August and October - December).
- Our 2026 S&P 500 Index earnings per share target shows a roughly 11% gain over our 2025 target, and performance should broaden across sectors. But questions about technology adoption may periodically interrupt the path to our S&P 500 Index year-end target range of 7400 - 7600. These recent days of up-and-down prices may signal one of those interruptions.
- For more details, please see our December 9th 2026 Outlook report: "Trendlines over headlines".
- The S&P 500 Index (nearby futures contract) is in an uptrend. The index may find support at 6765 (50-day moving average) and 6232 (200-day moving average).

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

What to do now

We have been expecting that the technology spending trend may at times run too far too fast, and we stay focused on valuations. We downgraded the S&P 500 Communication Services sector to market weight on August 5, and on October 30 we did the same in the Information Technology sector. In each case, we noted our preference to reallocate to Utilities, Industrials, and Financials, key sectors for building data processing centers that are ancillary to the technology trend but that have lower price-to-earnings ratios — in other words, potential for more attractive valuations — than the two sectors we downgraded.

The economic slowdown currently in progress should be temporary but creates an opportunity to reallocate some (but not all) of our overweight in U.S. Intermediate Term Taxable Fixed Income into Emerging Market Equities, which we have upgraded from unfavorable to a neutral weighting. We see the latter as another opportunity to invest in technology but with more attractive valuations than are available in the S&P 500 Index Communication Services or Information Technology sectors.

While the U.S. economy slows, our unfavorable equity sectors include the typical cast of defensive characters — Consumer Staples and Health Care —both of which we view as likely to underperform if stocks move higher as we expect. We are also unfavorable on the Consumer Discretionary sector as tariffs ratchet higher and lower-income consumers continue to struggle. To the extent that any of these rebound while worries about technology company earnings persist, we favor trimming these exposures and reallocating to our favored sectors.

To reiterate, our reallocation into equities out of U.S. Intermediate Term Taxable Fixed Income reduces but maintains an overweight to maturities of 3 to 7 years in investment-grade corporate securities. These maturities appear more attractive to us than shorter and longer maturities. Short-term rates should fall while the Federal Reserve cuts interest rates further. We also foresee potential volatility risks to long-maturity fixed-income returns. In short, we prefer these intermediate-term maturities to lock in higher yields than short-term securities offer and with less return volatility than long-dated maturities. We also favor investment-grade municipal fixed-income securities in the general obligation and revenue categories.

Volatility due to policy and corporate earnings uncertainties may continue in coming weeks. Our recent guidance changes favor viewing market pullbacks as opportunities to rebalance funds toward our favored asset classes and sectors. The goal of rebalancing is to reduce exposure where prices have become the most extended and to recycle the proceeds into potentially better values. In this way, rebalancing seeks to reduce near-term risk and to look for new potential opportunities as we expect the S&P 500 Index to continue trending toward our 2026 year-end target range, but not in a straight line. The process of rebalancing may be easier to do when one focuses more on the fundamental trendlines than on headlines.

Risks Considerations

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. Investments that are concentrated in a specific **sector** or industry may be subject to a higher degree of market risk than investments that are more diversified. **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. 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).

Definitions

Dow Jones Industrial Average is an unweighted index of 30 "blue-chip" industrial U.S. stocks.

NASDAQ 100 Index consists of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

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.

S&P 500 Communication Services Index comprises those companies included in the S&P 500 that are classified as members of the GICS® communication services sector.

S&P 500 Information Technology Index comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

An index is unmanaged and not available for direct investment.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-06182027-8673579.1.1