WELLS FARGO
Investment Institute

EXECUTIVE SUMMARY

2026 Outlook

2026 Targets as of December 9, 2025

Trendlines over headlines

Economy and exchange rates

In our view, the negative economic impact of tariff and immigration policies is weaker than the positive impact potential we observe in other policies. The accumulated tariffs may restrain economic growth and bump inflation temporarily higher early in the year. And reduced immigration limits labor supply and should push wages higher through 2026. But we believe momentum in infrastructure and business capital spending seems stronger.

We expect the tax cuts that began in 2025 to offer large cash infusions in the early-year tax season and, in turn, spur incremental capital spending. We believe the tax incentives can help broaden capital expenditure (capex) strength in the coming months beyond the artificial-intelligence (AI) related buildout to the industrial backbone of the economy.

Some disinflationary pressures that prevailed for most of 2025 may be easing, but our inflation outlook remains constructive for investors. Retailers have clearly passed more tariffs through to consumers, and consumer price data show firmer food and energy prices and resilient inflation across most services. However, there are important offsets that we think can cool inflation through 2026. Importantly, the number of trade deals and exceptions granted on tariffs may draw out tariff-related inflation. Tariff policy in 2026 could be extended further for legal reasons and give companies and consumers more time to adjust and offset the impact.

We expect U.S. economic strength to support a more modest growth recovery abroad, and we anticipate more balanced regional growth in emerging markets. We believe the balance of a variety of factors should favor U.S. dollar stability in foreign exchange markets and a modest appreciation by year-end.

	2025 latest*	2026 target
U.S. GDP growth	2.3% (Q2)	2.4%
U.S. inflation[1]	3.0% (Sept.)	2.8% (Dec.)
U.S. unemployment rate[2]	4.3% (Sept.)	4.9% (Dec.)
Global GDP growth[3]	3.6% (Q2)	2.5%
Dollar composite exchange rate[4]	99	98 – 102

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest economic data as of November 28, 2025. Targets for 2026 are based on forecasts by Wells Fargo Investment Institute as of December 9, 2025. GDP figures calculated using average percent change from the same period a year ago. Q2 = second quarter. GDP = gross domestic product.
1. Latest month percent change from a year ago. 2. Three-month average as of the date indicated, percent of labor force. 3. Weighted average of developed country and emerging-market forecasts. 4. 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.
2026 target represents year-end target range.
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.

Fixed income

The potential for slow job creation even as the economy accelerates may lead some headlines to question how much the Federal Reserve (Fed) can cut interest rates. Still, we believe the Fed's ultimate focus likely will be further cuts toward a neutral policy rate, that is, an interest-rate level that is neither restrictive nor stimulative. We prefer to look through headlines about whether policy can ease further and about whether political appointments threaten the Fed's policy independence.

We are watching closely the signal embedded in the spread between short- and long-term interest rates. Short-term U.S. Treasury yields may decline further, especially if the Fed continues with policy rate cuts in 2026. We believe intermediate (3-7 year maturities) and long-term (maturities of 10 years or more) yields may rise from year-end 2025 levels but remain within our year-end 2026 target range. Our expectations indicate a widening spread that is a historically common environment for a growing economy.

	2025 latest*	2026 Year-end targets
Federal funds rate	3.75% – 4.00%	3.00% – 3.25%
10-year U.S. Treasury yield	4.01%	4.00% – 4.50%
30-year U.S. Treasury yield	4.66%	4.50% – 5.00%

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest market data as of November 28, 2025. Targets for 2026 are based on forecasts by Wells Fargo Investment Institute as of December 9, 2025. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. Past performance is no guarantee of future results.**

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

Equities

In our view, the equity-market gains in a narrow group of large Information Technology and Communication Services companies represent the initial stage of a seismic change in how we all use technology. Unlike other transformative technologies, artificial intelligence (AI) does not so much replace existing technologies as enhance existing technologies to drive higher productivity gains for nearly all businesses and personal applications.

We expect deregulation and extensive tax cuts to buoy consumer spending and encourage business spending to broaden from AI to infrastructure and other sectors. In addition, Fed interest-rate cuts have been a positive tailwind historically for equity-market performance.

While the corporate operating environment is likely to improve generally, we are not yet signaling the "all clear" for the riskiest areas of the equity market. Small companies depend relatively more on credit, which means the group is particularly sensitive to any economic sluggishness. Therefore, we remain tilted toward high quality that we perceive in U.S. Large Cap Equities and U.S. Mid Cap Equities.

We prefer cyclical sectors over defensive and consumer-oriented sectors because of favorable trends likely accelerating economic growth: falling short-term interest rates, deregulation, tax cuts, long-term secular growth themes driven by AI, and broader business-capital spending.

The mix of cyclical sectors we currently favor includes Financials, Industrials, and Utilities. Our unfavorable sectors include Consumer Staples, Health Care, and Consumer Discretionary. We are neutral on several sectors (that is, we favor a full allocation), including Information Technology.

	2025 latest*	2026 Year-end targets
S&P 500 Index	6,849	7,400 – 7,600
Earnings per share	$274	$300
Russell Midcap Index	3,862	4,200 – 4,400
Russell 2000 Index (small cap)	2,500	2,500 – 2,700
MSCI EAFE Index	2,810	2,800 – 3,000
MSCI Emerging Markets Index	1,367	1,350 – 1,550

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest EPS figures are Bloomberg consensus estimates for full-year 2025 EPS as of November 28, 2025. All other latest numbers from Bloomberg as of November 28, 2025. Targets for 2026 are based on forecasts by Wells Fargo Investment Institute as of December 9, 2025. **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.**

Real assets

In real assets, we view the easing of financial conditions and improving macro environment through 2026 as positive tailwinds for modest broad performance. We retain a neutral rating on the commodity complex.

Recent conditions have been ripe for gold outperformance. We expect many of these tailwinds to persist in 2026 and continue driving gold's outperformance, albeit at a slower pace than in 2025.

We remain neutral on the energy sector due to mounting global-supply headwinds and our expectation for a mild economic soft patch that extends into early 2026 that likely will tilt oil markets into a surplus. However, we do still see some strengths in oil markets, which could lead to modestly higher prices by year-end 2026.

	2025 latest*	2026 Year-end targets
West Texas Intermediate crude ($ per barrel)	$59	$65 – $75
Brent crude ($ per barrel)	$63	$70 – $80
Gold ($ per troy ounce)	$4,239	$4,500 – $4,700
Bloomberg Commodity Index (total return)	277	270 – 290

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest market data as of November 28, 2025. Targets for 2026 are based on forecasts by Wells Fargo Investment Institute as of December 9, 2025. **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.**

Alternative investments

We believe alternative investments can enhance portfolio resilience by offering the potential for diversification through reduced exposure to short-term market volatility, and structural features may help qualified investors maintain long-term discipline through market cycles. Flexible hedge-fund strategies may help navigate today's complex and rapidly evolving investment environment. These strategies aim to mitigate risk, capitalize on macroeconomic shifts, and complement traditional equity allocations with differentiated sources of return. We believe hedge funds can offer investors ways to focus on the positive trends we see in place while blocking out much of the headline noise.

Alternative investments are not appropriate for all investors and are only open to "accredited investors" or "qualified investors" within the meaning of the U.S. securities laws. They are speculative, highly illiquid, and designed for long-term investment and not as trading vehicles.

Risk considerations

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

All investing involve risks, including the possible loss of principal. 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. Their values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Foreign markets have additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Mid- and small-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large-company stocks. **Bonds** are subject to interest rate, credit/default, liquidity, call, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. Investors should consider the stability of the issuing entity when investing in sovereign debt. The **commodities** markets, including investments in physical commodities such as gold, 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. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions. Other risks associated with investing in listed **REITs** include the use of leverage, unexpected reductions in common dividends, increases in property taxes, and the impact to listed REITs from new property development. **Alternative investments**, such as hedge funds and private capital/private debt and private real estate strategies, are speculative and not appropriate for all investors. These investments are only available to persons who are "accredited investors" or "qualified purchasers" within the meaning of U.S. securities laws. Investors could lose all or a substantial amount investing in these products. Alternative investment strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks.

Investments in currencies involve certain risks, including credit risk, interest rate fluctuations, fluctuations in currency exchange rates, derivative investment risk and the effect of political and economic conditions. The use of currency transactions to seek to achieve gains in the portfolio could result in significant losses to the portfolio which exceeds the amount invested in the currency instruments. In addition, exchange rate movement between the U.S. dollar and foreign currencies may cause the value of the fund's investments to decline

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. This can result in greater price volatility.

Definitions

Bloomberg Commodity Index is composed of 23 exchange-traded futures on physical 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 a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

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

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 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.

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.

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

S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation, and financial companies.

S&P 500 Real Estate Index comprises those companies included in the S&P 500 that are classified as members of the GICS Real Estate 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 the Global Investment Strategy (GIS) division of WFII. Opinions represent GIS' opinion as of the date of this report; are for general informational 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 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.

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 accounts 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 nonbank affiliates of Wells Fargo & Company.

© 2025 Wells Fargo Investment Institute. All rights reserved. PM-05262027-8634817.1.1