



Global Investment Strategy Team

Introducing our 2026 targets

Forecast changes

- ☒ Guidance change
- ☒ Forecast change
- ☐ Allocation change

- **Global economy:** We still expect that the U.S. economy will skirt a recession in 2025 and shift to a modest growth recovery into 2026 on the strength of Federal Reserve (Fed) rate cuts and other positives. We expect renewed disinflation in 2026, stemming from cyclical productivity gains and excess capacity. In our view, U.S. exceptionalism will remain largely intact as overseas economies are restrained by structural weaknesses.
- **Equities:** Positive economic growth, tariff clarity, and improving sentiment should support continued earnings growth and drive stock-market gains from 2025 lows through year-end 2026.
- **Fixed income:** Anticipated Fed rate cuts, modest U.S. economic growth, and declining inflation through year-end 2026 support our view that longer-term interest rates will remain range bound near current levels. Our year-end 2026 interest-rate targets imply no major changes in the yield curve from our year-end 2025 targets.
- **Real assets:** The recent reversal of some production cuts by OPEC+ (Organization of the Petroleum Exporting Countries and their allies) leads us to revise our 2025 crude oil targets lower, but moderate economic improvement in 2026 should incrementally add to commodity demand and crude oil prices. Fed rate cuts and global buying should remain tailwinds for gold.
- **Currency exchange rates:** We expect stronger U.S. economic growth and higher short-term interest rates relative to those of international economies. This combination favors the U.S. dollar through 2026, although not as much as in our previous targets.

Guidance changes

- **Fixed income:** We are upgrading U.S. Municipal Bonds to favorable from neutral. We believe that the recent pullback in municipal bonds presents an attractive entry opportunity and that valuations are more attractive than they were six months ago.

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

Table 1. 2025 and 2026 forecasts and year-end market targets

| Global economy¹ | 2026 targets | New 2025 targets | Previous 2025 targets |
|--|------------------------------|----------------------------------|---------------------------------------|
| U.S. GDP growth | 1.8% | 1.0% | 1.0% |
| U.S. CPI inflation ² | 2.6% | 3.5% | 3.5% |
| U.S. unemployment rate ³ | 5.3% | 4.8% | 4.8% |
| Global GDP growth ⁴ | 2.6% | 2.1% | 2.1% |
| Global inflation ⁴ | 3.0% | 3.5% | 3.5% |
| Developed-market GDP growth ⁵ | 1.7% | 0.9% | 0.9% |
| Developed-market inflation ⁵ | 2.5% | 2.8% | 2.8% |
| Eurozone GDP growth | 1.2% | 0.9% | 0.9% |
| Eurozone inflation ² | 1.8% | 2.7% | 2.7% |
| Emerging-market GDP growth | 3.3% | 3.0% | 3.0% |
| Emerging-market inflation | 3.3% | 4.1% | 4.1% |
| Fixed income | 2026 year-end targets | New 2025 year-end targets | Previous 2025 year-end targets |
| Federal funds rate | 3.50-3.75% | 3.50-3.75% | 3.50-3.75% |
| 10-year U.S. Treasury | 4.00-4.50% | 4.00-4.50% | 4.00-4.50% |
| 30-year U.S. Treasury | 4.25-4.75% | 4.25-4.75% | 4.25-4.75% |
| Global equities | 2026 year-end targets | New 2025 year-end targets | Previous 2025 year-end targets |
| S&P 500 Index | 6,400-6,600 | 5,900-6,100 | 5,900-6,100 |
| S&P 500 Index EPS | \$285 | \$260 | \$260 |
| Russell Midcap Index | 4,100-4,300 | 3,600-3,800 | 3,600-3,800 |
| Russell Midcap Index EPS | \$210 | \$190 | \$190 |
| Russell 2000 Index | 2,200-2,400 | 2,000-2,200 | 2,000-2,200 |
| Russell 2000 Index EPS | \$80 | \$70 | \$70 |
| MSCI EAFE Index | 2,800-3,000 | 2,400-2,600 | 2,400-2,600 |
| MSCI EAFE Index EPS | \$175 | \$160 | \$160 |
| MSCI EM Index | 1,100-1,300 | 1,000-1,200 | 1,000-1,200 |
| MSCI EM Index EPS | \$85 | \$75 | \$75 |
| Currencies | 2026 year-end targets | New 2025 year-end targets | Previous 2025 year-end targets |
| Dollar/euro exchange rate | \$1.04-\$1.08 | \$1.08-\$1.12 | \$1.02-\$1.06 |
| Yen/dollar exchange rate | ¥148-¥152 | ¥144-¥148 | ¥152-¥156 |
| ICE U.S. Dollar Index ⁶ | 103-107 | 101-105 | 105-109 |
| Real assets | 2026 year-end targets | New 2025 year-end targets | Previous 2025 year-end targets |
| WTI crude (\$ per barrel) | \$65-\$75 | \$60-\$70 | \$65-\$75 |
| Brent crude (\$ per barrel) | \$70-\$80 | \$65-\$75 | \$70-\$80 |
| Gold (\$ per troy ounce) | \$3,400-\$3,600 | \$3,000-\$3,200 | \$3,000-\$3,200 |
| Bloomberg Commodity Index | 265-285 | 250-270 | 250-270 |

Targets are based on forecasts by Wells Fargo Investment Institute as of May 15, 2025, 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

Looking into 2026, we expect the U.S. economy to adjust to the disruptions that have been the highlight of the first half of 2025. After a year of sluggish growth, tariff uncertainty, and market volatility, we anticipate that global tariffs will stabilize and allow economic and market conditions to begin improving in late 2025 and continue through 2026.

Our assumption that global tariffs stabilize is important. Tariffs are taxes that bump prices to a higher level but do not keep raising them. These higher price levels should slow the economy and then inflation, by turns. The slower spending rate and cooler inflation should give the Fed room to cut interest rates modestly. We look for improved consumer purchasing power and stable interest rates to promote a reliable foundation for borrowing and investment. Fiscal stimulus and accumulating cost reductions of broad-based deregulation should add support. Our outlook for equity markets is constructive as we see corporate earnings rising moderately and stock price indexes trending upward as companies adapt to the changing landscape of global trade.

Globally, we see a modest 2026 economic growth recovery. Still, we think U.S. exceptionalism remains largely intact as the tariff impact likely has a comparatively larger, negative impact on the international economies. As synchronized global growth emerges next year, commodity prices should advance modestly, including oil and gold. We continue to see Commodities broadly as a potential diversifier against potential geopolitical uncertainties.

While uncertainties about the pace and strength of a global recovery may linger into 2026, we think they will become less of an overhang for markets next year. We continue to position accordingly, favoring equities over fixed income. Within the equity asset group, we continue to prefer domestic allocations over global equities, and we favor U.S. Large Cap Equities over other equity asset classes due to its strong balance sheets, durable pricing power, and resilient growth potential. In fixed income, we favor intermediate maturities over short- or long-term alternatives as a steepening yield curve provides investors better opportunities in three-to-seven-year maturities.

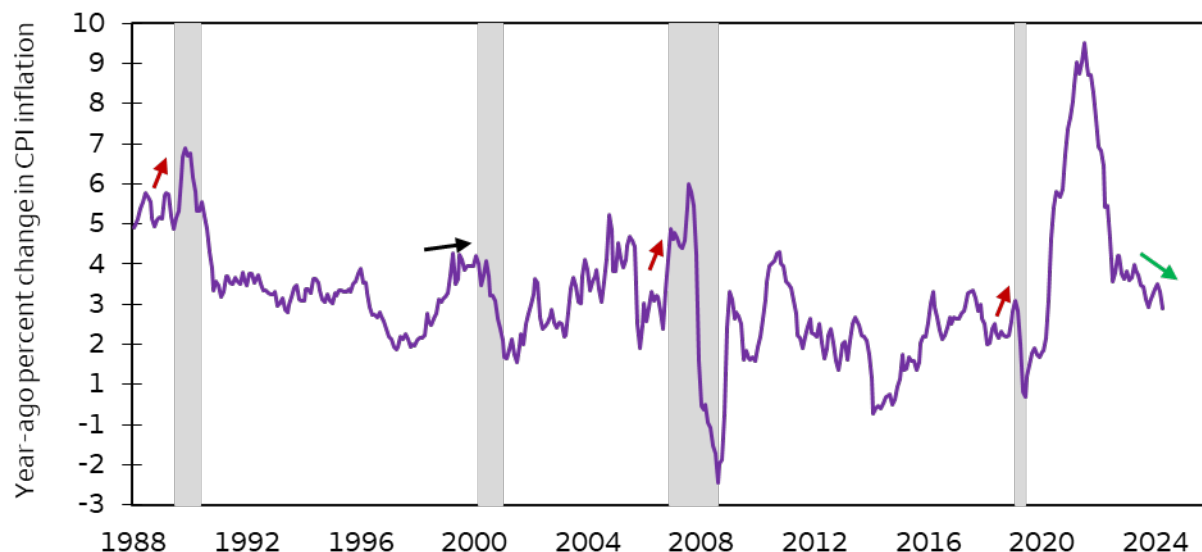
Eyes on the horizon: A modest 2026 U.S. growth recovery

We believe the U.S. economy will skirt a recession in 2025 as key supports limit the depth and duration of the ongoing slowdown. Recessions typically follow periods of sharp inflation (see Chart 1), but in this instance, inflation peaked in 2022 and has been trending lower since then. This unusually subdued inflation trend should continue to cushion real (inflation-adjusted) incomes, adding to household purchasing power and restraining longer-term interest rates and financial stress. Lower oil prices should provide added support to consumer purchasing power, helping to offset goods-price inflation that is likely to increase this summer from higher tariffs. Unemployment typically lags economic conditions, but we expect an increase by year-end 2025 and into early 2026. Still, the economic slowdown should be shallow, and other limitations on labor supply (an aging workforce and tighter immigration) should limit unemployment and cushion wage growth.

As economic growth likely slows into this year's third quarter, we believe this will subsequently soften inflation and jobs growth, providing a window of opportunity for the Fed to cut interest rates. We also anticipate that Congress will pass growth-supportive tax cuts beyond the extension of the 2017 Tax Cuts and Jobs Act. While the economic impact may not be felt until 2026, improved consumer and business sentiment should renew rallies in stocks and other risk assets, supporting upper-income household wealth and spending. Additionally, the cumulative impact of deregulation should provide a moderate economic tailwind later this year and into 2026, setting the stage for productivity gains that we believe will combine with a backdrop of excess capacity to accommodate renewed disinflation in 2026. Reshoring of U.S. manufacturing also may begin to come into play.

However, that process is likely to be gradual and have a modest impact on economic activity, particularly in its early stages.

Chart 1. A looming economic slowdown without inflation's usual rise



Sources: Wells Fargo Investment Institute and U.S. Labor Department. Monthly data, December 1988 – March 2025. CPI = Consumer Price Index. Shaded areas denote recessionary periods.

International growth outlook and a mild dollar rebound

Overseas, we anticipate a mild 2026 growth recovery largely synchronized with the one in the U.S. However, we think the shift to more protectionist trade policies will limit any recovery in world trade, restraining growth in more export-reliant international economies. These economies also face chronic structural disadvantages (namely declining populations, greater regulatory burdens, and less efficient, less liquid financial markets) that compare unfavorably with the U.S. economy. As a result, inflation and interest rates abroad should remain lower than in the U.S. and thereby sustain dollar strength, albeit from lower levels than before the recent tariff exchanges.

Lower emerging-market inflation in 2026 masks a recovery from deflation in China, reflecting support from what we expect will be more aggressive economic stimulus over the course of 2025. We think China will become more of a growth engine in 2026 as economic stimulus supports a mild recovery there. However, we believe that the ripple effect on China's economy and global growth will be more modest than in the past, because more of the stimulus and prospective growth likely will come from consumer spending rather than more dynamic investment and exports.

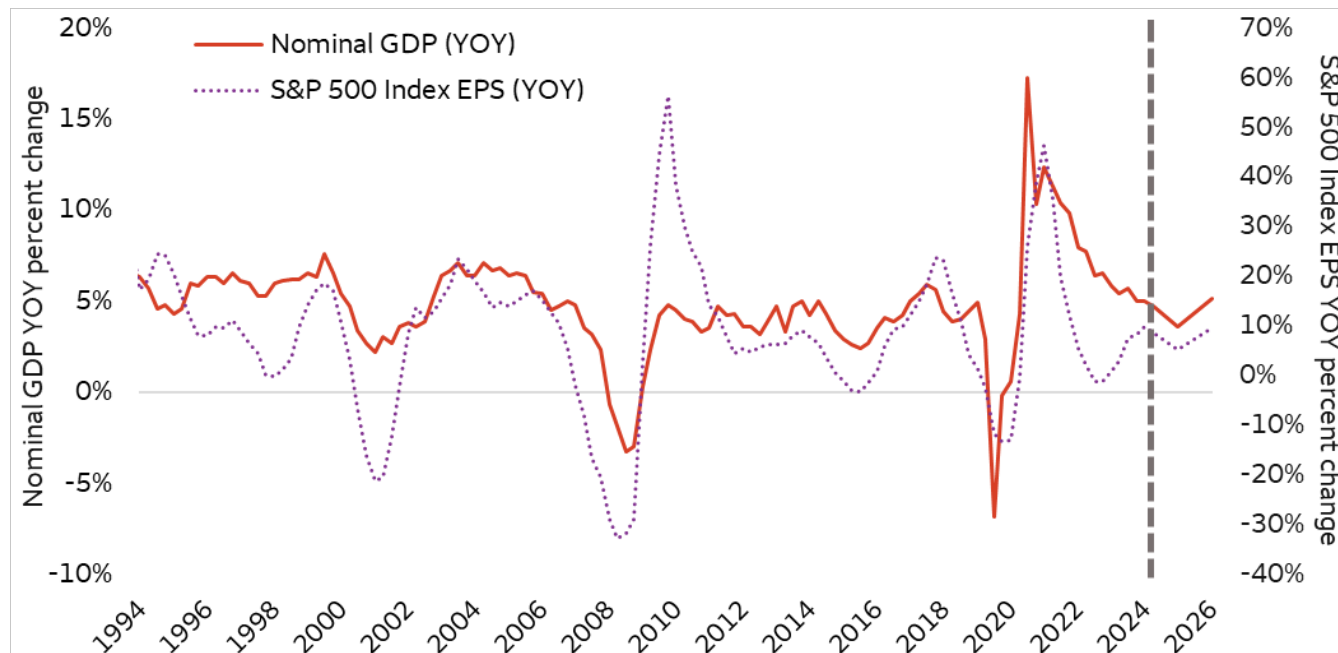
Skies may be clearing for equity markets in 2026

Uncertainties over tariffs, worries of consumer exhaustion, and recession fears have characterized 2025 to this point and produced heightened volatility. As the calendar turns to 2026, we expect to see many of those headwinds in the rearview of the market's collective mirror. To be clear, we expect significant tariffs to remain in place but to stabilize while the economy emerges from the 2025 slowdown. Once companies and consumers understand the levies and how to adjust to them, we expect that they will more confidently focus on operating

within the new framework. Add on the benefit of potential market-friendly policy measures — tax cuts and deregulation — and we can see a constructive environment for some recovery in valuations.

Earnings growth is at the heart of our expectation for this sustained rally. A more constructive economic and policy environment should drive incrementally stronger sales growth while a heightened focus on costs and efficiencies should reinforce profit margins. As Chart 2 illustrates, the economy's pace and S&P 500 Index earnings per share (EPS) tend to correlate positively. Our 2026 forecast for economic improvement drives our expectation for higher S&P 500 Index EPS, which we see reaching \$285 at year-end 2026.

Chart 2. U.S. economic growth and the S&P 500 Index tend to move in tandem



Sources: Wells Fargo Investment Institute and Bloomberg. Quarterly data: December 31, 1994 – December 31, 2026. GDP = gross domestic product. YOY = year over year. Dashed vertical line indicates the start of forecast values, with year-end 2025 and year-end 2026 values representing Wells Fargo Investment Institute forecasts.

Our constructive equity outlook is not an all clear for the riskiest areas of the markets. We suspect that lower-quality companies with less flexible supply chains and balance sheets will have the toughest time navigating the environment of below-trend growth and higher costs. We prefer quality U.S. Large and Mid Cap Equities over U.S. Small Cap Equities as well as Developed Market ex-U.S. Equities over Emerging Market Equities.

A narrow corridor for the Fed

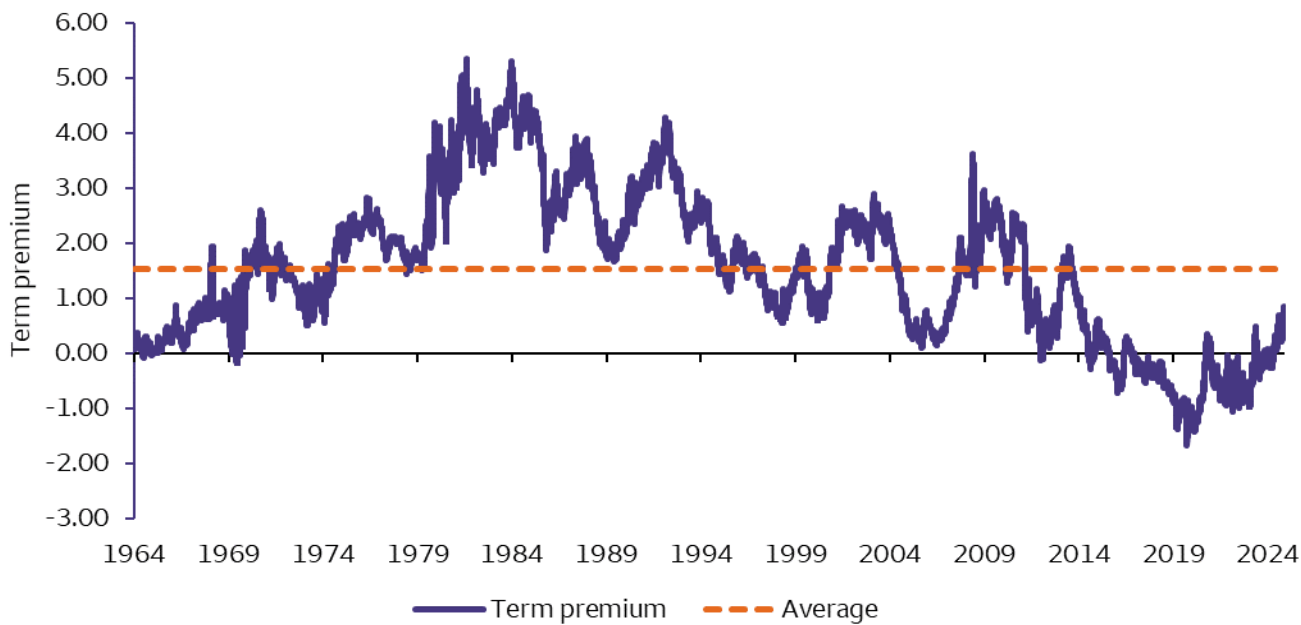
We believe the U.S. central bank finds itself conflicted in trying to manage its dual mandate at a time when tariffs likely will temporarily raise inflation and slow the economy. Ultimately, a tariff is essentially a tax that raises prices once, and we expect that tariff-related inflation gains will prove transient. As the tariffs take effect and inflation rises, we expect the economy to slow and thereafter undercut inflation. We believe this sequence will give the Fed leeway to deliver three additional interest rate cuts through year-end 2026, but the timing should depend on how quickly inflation peaks and then slows. The window for cuts could be narrow: Our base case implies three rate cuts during the second half of 2025. However, if inflation slows the economy only gradually into year end, then some of the cuts could come in 2026.

Confluence of factors likely leaves long-term yields range bound

We expect short-term U.S. Treasury rates to decline in tandem with the Fed’s policy rate, the federal funds rate. However, longer-term yields in the coming quarters may remain range bound near current levels under a confluence of crosscurrents. These include variable inflation and economic growth, as well as additional U.S. Treasury issuance from a higher debt ceiling and likely wider federal deficits. We believe the tide will ebb on these currents over the next 18 months and keep long-term yields mostly range bound during this period. Hence, we are keeping our year-end 2025 10-year and 30-year U.S. Treasury yield targets unchanged and carrying forward the same targets to year-end 2026.

We see the main risk to this base case that these crosscurrents may increase the term premium — that is, the additional yield investors require to compensate them for the risk of holding long-term bonds over short-term debt. Chart 3 illustrates the historical level of the term premium over the past 60 years, which has been positive and averaged close to 1.5%. We believe the term premium will continue moving gradually higher, more in line with history, and away from the negative prints displayed for much of the past decade. The more that the above crosscurrents vary during the next 18 months, the more variable the term premium could become. In particular, the term premium could rise as inflation begins to fall, and that combination would lead to a modest steepening of the yield curve.

Chart 3. Term premium a volatile component of 10-year U.S. Treasury yield



Sources: Wells Fargo Investment Institute and Bloomberg, as of April 30, 2025. Term premium is represented by the Adrian, Crump, and Moench 10-year Treasury term premium index. Average represents period from June 14, 1964 – April 30, 2025.

Upgrading U.S. Municipal Bonds from neutral to favorable

Since our downgrade of U.S. Municipal Bonds from favorable to neutral on October 21, 2024, the Bloomberg Municipal Index has fallen by 1.7% while the U.S. Bloomberg Barclays Aggregate Index has recorded a 2.1% gain as of April 30, 2025. We view the recent volatility of the municipal bond market as a favorable entry opportunity. Valuations appear relatively more attractive than they were six months ago, and we believe that some of the recent price volatility, mostly from concerns about a removal of the municipal-bond tax exemption, appears

overdone. We do not believe that the tax-exempt status of municipal bonds is widely at risk given the significant political roadblocks in the path of a tax change this impactful to state and local governments.

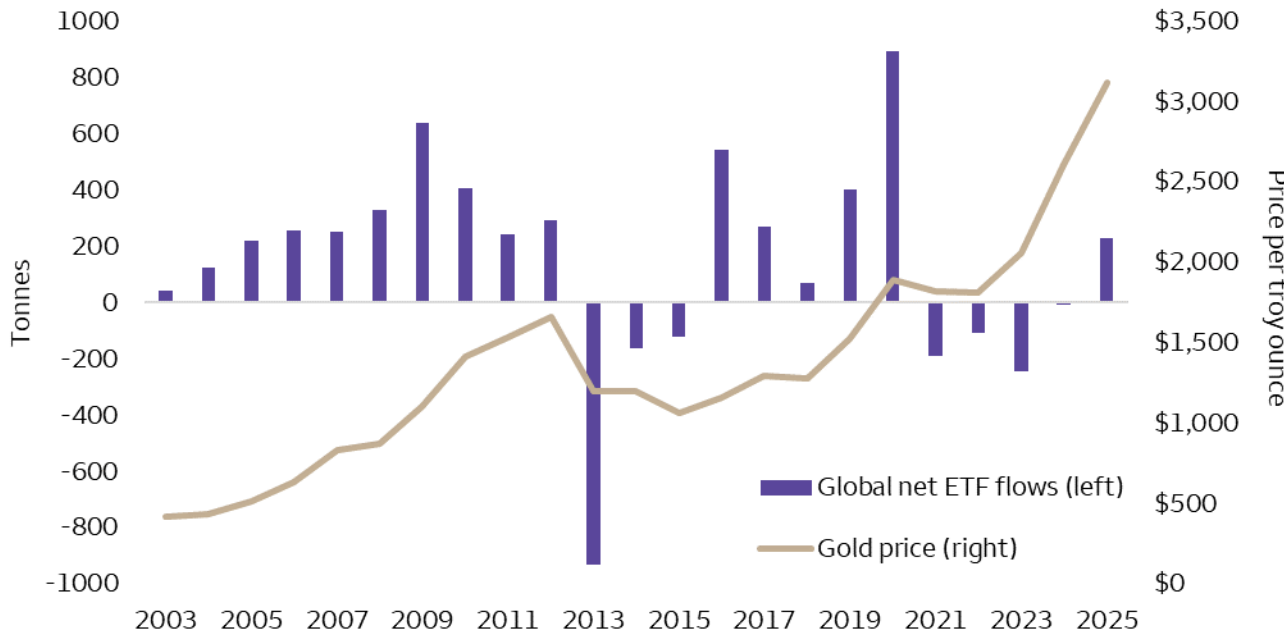
We believe that municipal-bond credit quality remains strong and that credit fundamentals are positive overall. Municipal-to-Treasury yield ratios have increased, and we view tax-equivalent yields as compelling, especially during this period of shifting U.S. policies. Our return expectation for U.S. Municipal Bonds over the next year remains positive in the low single digits, but further support for municipal-bond performance could come from a renewed flight of capital toward assets considered to be of higher quality and better shielded from tariffs.

Commodities: Crude oil prices likely to struggle while gold shines

We see value in Commodities as a portfolio diversifier and as a hedge against potential bouts of geopolitical uncertainties. That said, we believe OPEC+’s recent decision to continue unwinding its production cuts will add to already ample global supplies and limit crude oil prices from rising significantly beyond current prices in 2025. Looking into 2026, even the modest improvements in global economic growth that we expect historically have stimulated additional oil demand. We also believe U.S. producers will likely slow their output and thereby help oil prices gain traction. Their hesitation is especially likely while crude prices are near breakeven rates of \$65 per barrel for new wells and while heightened uncertainties continue around tariffs on metals used in drilling.

We remain constructive on gold’s outlook heading into 2026 and believe many of gold’s fundamental drivers (like central-bank purchases and renewed private investor interest) will remain tailwinds next year. Fed rate cuts should add a tailwind as gold becomes more attractive relative to interest-bearing assets. While we do believe the tactical outlook is bright for gold, prices may need a breather in the near term. We suspect that two factors — the reversion of overly optimistic sentiment and an oversold U.S. dollar as tariff concerns ease — will ultimately weigh on gold prices and create more attractive opportunities for investors to position for the next leg higher through 2026.

Chart 4. Renewed interest in gold ETFs



Sources: Wells Fargo Investment Institute, Bloomberg, and World Gold Council. Annual data, 2003 – 2025. 2025 data is through March 31, 2025. ETF = exchange traded fund. Gold ETFs represent 106 funds that hold physical gold around the world, including those in North America, Europe and Asia. The holdings are measured in tonnes. A tonne of gold is 1,000 kilograms or 2,204.62 pounds. **Past performance is no guarantee of future results.**

Risk Considerations

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

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

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. **Municipal bonds** offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income. 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. Investments in **gold** and gold-related investments tend to be more volatile than investments in traditional equity or debt securities. Such investments increase their vulnerability to international economic, monetary and political developments. 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.

General Disclosures

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Bloomberg Municipal Bond Index is an unmanaged index composed of long-term tax-exempt bonds with a minimum credit rating of Baa.

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

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, comprised of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc. A higher index value indicates dollar appreciation.

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.

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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