WELLS FARGO
Investment Institute

EXECUTIVE SUMMARY

2025 Midyear Outlook

Targets as of June 10, 2025

Opportunities amid uneven terrain

Economy and exchange rates

We believe the 10% universal tariff base rate against all trading partners plus sector-specific tariffs (like those on steel, aluminum, and autos) would leave the average levy high enough to lower full-year U.S. economic growth to a subpar 1.0% in 2025, even in the unlikely event that all the reciprocal tariffs are negotiated away. However, we also believe key supports will allow the U.S. economy to avoid a tariff-induced recession and stage a mild recovery from late 2025 through 2026.

We anticipate Consumer Price Index (CPI) inflation will rise 3.5% year over year in December 2025. In our view, tariffs will add upward pressure on inflation, primarily through their impact on core goods (excluding food and energy).

We view the U.S. economy as better positioned to weather tariffs than economies abroad. The U.S. boasts structural advantages like a vibrant technology sector, less reliance on exports, and comparatively stronger fiscal stimulus.

We expect the U.S. dollar to rebound in sync with strengthening U.S. economic and interest-rate advantages through the balance of 2025 and into 2026. Higher tariffs should be a negative for trade-sensitive emerging-market currencies. We also view dollar strength weighing indirectly on exchange rates by creating a headwind for commodity prices.

	2025 targets	2026 targets
U.S. GDP growth	1.0%	1.8%
U.S. CPI inflation[1]	3.5% (Dec.)	2.6% (Dec.)
U.S. unemployment rate[2]	4.8% (Dec.)	5.3% (Dec.)
Global GDP growth[3]	2.1%	2.6%
Dollar/euro exchange rate	$1.08–$1.12	$1.04–$1.08

Source: Wells Fargo Investment Institute. Targets for 2025 and 2026 are based on forecasts by Wells Fargo Investment Institute as of June 10, 2025, and provide a forecast direction over a tactical horizon through 2026. Average percent change from the same period a year ago unless otherwise noted. GDP = gross domestic product. CPI = Consumer Price Index. **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.**

1. December-to-December change.
2. Three-month average as of the date indicated, percent of labor force.
3. Weighted average of developed-country and emerging-market forecasts.

Fixed income

We expect the Federal Reserve (Fed) to calibrate monetary policy more reactively based on how tariffs ultimately impact inflation, labor markets, and the overall economy. Our base scenario implies two Fed rate cuts between now and year-end 2026.

We expect the bond market to remain sensitive to policy announcements and economic developments, especially around the trajectory of inflation and global demand for U.S. fixed-income securities. We also expect bond investors to pay close attention to congressional budget negotiations, mainly for a sense of whether federal-budget deficits will increase.

We upgraded our U.S. Municipal Bonds guidance to favorable from neutral due to attractive relative value, anticipated summer reinvestment demand, and bipartisan support for municipal-bond tax exemption, which we believe Congress will maintain.

	Year-end 2025 targets	Year-end 2026 targets
Federal funds rate	4.00%–4.25%	3.75%–4.00%
10-year U.S. Treasury yield	4.00%–4.50%	4.25% –4.75%
30-year U.S. Treasury yield	4.25% –4.75%	4.50%–5.00%

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Equities

Tariffs as a cost headwind have the potential to hit top-line sales as consumers purchase fewer goods and services, and tariffs can squeeze profit margins. But the drag from tariffs does not end there. With trade-policy negotiations ongoing, companies' ability to allocate capital toward growth projects is impaired. C-suites are less likely to approve a project if the return after project costs are unknowable. In the near term, when we expect trade-policy uncertainty to be highest, volatility is likely to be elevated and returns muted.

However, we expect more trade deals to provide some additional clarity and reduce corporate, consumer, and investor anxiety. Deregulation, tax cuts, and lower short-term borrowing rates should further bolster earnings. We expect that modest earnings growth and rebounding price/earnings (P/E) valuations will drive attractive returns later this year and through 2026.

We ultimately see upside potential in U.S. equities through 2026 but are focusing on valuations while near-term market action is volatile. If risk appetite weakens and prices fall, we favor reallocating from our unfavorably rated defensive sector (Consumer Staples) and from some neutral-rated sectors (Health Care and Real Estate) to our favorable cyclical sectors (Energy, Financials, Communication Services, and Information Technology). By contrast, during risk-on rallies we prefer to reallocate from sectors we see as overvalued, such as the cyclically-oriented Consumer Discretionary sector, to a more defensive sector, Utilities, which we see as more favorably valued.

	Year-end 2025 targets	Year-end 2026 targets
S&P 500 Index	5,900–6,100	6,400–6,600
Earnings per share	$260	$285
Russell Midcap Index	3,600–3,800	4,100–4,300
Russell 2000 Index (small cap)	2,000–2,200	2,200–2,400
MSCI EAFE Index	2,400–2,600	2,800–3,000
MSCI Emerging Markets Index	1,000–1,200	1,100–1,300

Source: Wells Fargo Investment Institute. All targets for 2025 and 2026 are based on forecasts by Wells Fargo Investment Institute as of June 10, 2025, and provide a forecast direction over a tactical horizon through 2026. **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.**

Real assets

We believe economic uncertainties and geopolitical tensions will continue to drive ongoing gold purchases by private investors and global central banks well into 2026. However, we note that the investor optimism about precious-metals gains has reached levels that historically accompany sharp pullbacks. We favor patience to buy on dips in price.

We believe headwinds will build crude-oil inventories modestly by year-end. However, uncertainties around U.S. drilling costs from tariffs, and weak pricing near break-even levels, could limit U.S. production and price downside. We anticipate moderately stronger economic conditions to drive modest returns from current prices.

Two main factors roughly balance in our neutral guidance on the Private Real Estate sector. The Fed rate cuts we expect should reduce short-term borrowing costs and price equity more attractively. By contrast, the slower economy we expect in the near term should weigh on demand until a recovery gains momentum late in the year.

	Year-end 2025 targets	Year-end 2026 targets
West Texas Intermediate crude ($ per barrel)	60–70	65–75
Brent crude ($ per barrel)	65–75	70–80
Gold ($ per troy ounce)	3,000–3,200	3,400–3,600
Bloomberg Commodity Index (total return)	250–270	265–285

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Alternative investments

In an effort to build a more resilient portfolio, we favor increasing exposure to Equity Hedge–Directional and Relative Value–Long/Short Credit. We also favor Macro–Discretionary strategies to navigate up- and down-trending markets in a way that may hedge the geopolitical risks and rapidly shifting policy twists.

We have also maintained our favorable guidance on Event Driven–Distressed Credit strategies. Distressed Credit strategies seek to capitalize on these market dislocations and may perform well in challenging environments and function as a counterbalance to traditional equity and fixed-income portfolios.

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. **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, 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. 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. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic 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. **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. Investing in **long/short strategies** is not appropriate for all investors. Short selling involves sophisticated investment techniques that can add additional risk, and involves the risk of potentially unlimited increase in the market value of the security sold short, which could result in potentially unlimited loss for the Fund.

Index definitions

An index is unmanaged and not available for direct investment.

Bloomberg Commodity Index is comprised 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 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.

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.

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