



# Investment Strategy

**Weekly guidance from our Investment Strategy Committee** **January 5, 2026**

## **Asset Allocation Spotlight: Top five portfolio ideas for 2026..... 2**

- We believe investors should consider including exposure to innovative technology, digital assets, international assets, and alternatives as part of a diversified portfolio allocation.
- We recommend choosing investments that we expect to maintain purchasing power over time..

## **Equities: Expect earnings growth to broaden and drive returns in 2026 ..... 4**

- We are optimistic about earnings and expect this to be a key driver of returns for equities in 2026. Our \$300 target for S&P 500 earnings per share (EPS) in 2026 represents approximately 10% growth over 2025 levels.
- We still see artificial intelligence (AI) as a key theme, but we prefer to remain disciplined and nimble in allocating incremental capital.

## **Fixed Income: Corporate bonds are attractive in a higher-rate environment... 5**

- We believe that yields and coupons will attract investors to the corporate bond market in 2026.
- Some lower-rated corporate bond issuers face headwinds from inflation and higher interest rates.

## **Real Assets: Looking ahead into 2026 ..... 6**

- We expect the combination of lower interest rates and a moderate reacceleration of U.S. economic growth to be positive drivers of commodity demand and prices in 2026.
- We remain neutral on Commodities, however, we find their diversification benefits attractive amid the potential for headline noise and volatility to persist.

## **Alternatives: Consider alternatives to prepare for the year ahead..... 7**

- In our view, alternative investments may help investors focus on long-term goals by providing diversification and structural features that can encourage long-term discipline. These investments involve significant risks including illiquidity and potential loss of principal.
- Alternative investments may help investors prepare for periods of higher volatility as well as potentially benefit from our expectations for a continued recovery in merger and acquisition (M&A) activity.

## **Current tactical guidance..... 8**

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

## Asset Allocation Spotlight

**Tracie McMillion, CFA**

Head of Global Asset Allocation Strategy

### Top five portfolio ideas for 2026

We drew inspiration for our top five portfolio ideas for 2026 from the title of our Outlook, “*Trendlines over headlines*,” as we sought to identify sustained trends that transcend the day’s headlines.

Our top five portfolio ideas for 2026 are as follows:

#### 1) Focus on technology’s productivity

We believe we are still early in the chapter of human history that will most likely be defined by technology innovations, such as artificial intelligence (AI). We expect the potential benefits to be broad-based across most segments of the U.S. and global economies. Equity sectors that we believe should benefit from this buildout include Industrials and Financials. In particular, the cybersecurity industry as well as companies within the Midstream Energy and Machinery, Electrical Equipment, and Data Center real estate investment trust (REIT) sub-sectors should be a focus for investors. Also, the Diversified Banks sub-sector is likely to benefit from increased capital demands as AI buildout continues.

#### 2) Consider digital assets as a potential opportunity

This is the first year that we have included digital assets in our top portfolio ideas. We believe that the asset class has matured adequately to be considered for qualified investors’ portfolios. We believe digital assets could be especially interesting to investors who are seeking innovation, diversification, and long-term growth potential. But, we think investors should approach these investments with their eyes wide open. Digital assets such as exchange-traded funds that hold Bitcoin and Ethereum are volatile, and while the volatility appears to have moderated over time, it is still extremely high relative to traditional risk assets like equities. The second important risk to consider is that co-movement with other risky assets rises during times of extreme moves in liquidity.

**Table 1. Low long-term digital-asset correlations with select traditional investment assets**

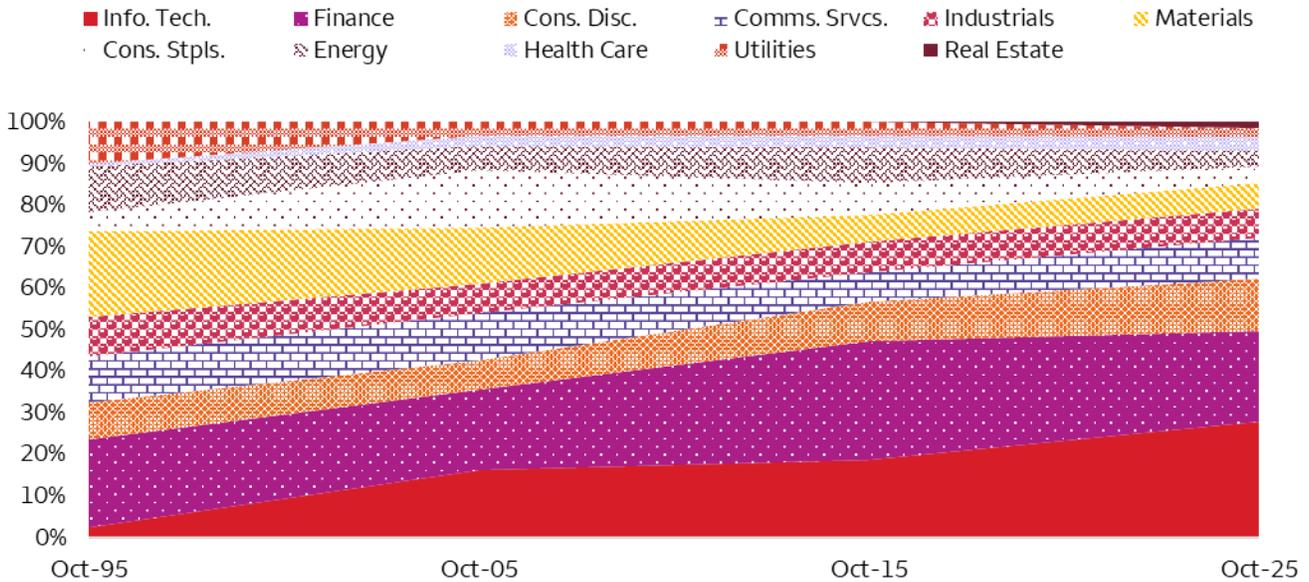
Period	MSCI All Country World Index	Bloomberg U.S. Aggregate Bond Index	S&P 500 Index	Bloomberg Commodity Index	Gold spot Price	Annualized standard deviation of monthly returns
From 1/31/2011 to 10/31/2025	0.18	0.09	0.19	0.08	0.00	182%
From 8/31/2017 to 10/31/2025	0.34	0.15	0.34	0.15	0.05	104%
From 1/31/2020 to 2/28/2021	0.69	0.32	0.67	0.43	0.13	88%
From 3/31/2021 to 10/31/2025	0.56	0.26	0.62	0.05	0.06	70%
From 8/31/2017 to 10/31/2025	0.34	0.15	0.34	0.15	0.05	104%

Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data from January 31, 2011, to October 31, 2025, current as of November 17, 2025. The price of gold is the Intercontinental Exchange (ICE) U.S. dollar price per troy ounce. Digital asset prices are represented by a composite (December 2010 = 1) of our construction that consistently has captured roughly 90% of market capitalization (calculated as circulating supply times price) and the growing diversity of the market over time. The composite constituents are the price of Bitcoin from December 2010 to August 2015; a market-cap-weighted combination of bitcoin and Ethereum prices (market weights and Ethereum prices from CoinCodex) from September 2015 to July 2017; and the Bloomberg Galaxy Crypto Index from its inception in August 2017 through October 31, 2025. Standard deviation, a measure of price volatility, measures the average gap between month-end prices and their average month-end price over a given period. (Correlation between traditional assets and digital asset prices. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**)

### 3) Complement U.S. equity bias with international opportunities

We are growing more constructive on Emerging Market (EM) Equities. EM economies may be able to lower interest rates if the U.S. dollar stabilizes and global inflation moderates as we expect. Also, the MSCI Emerging Markets Total Return Index now has a higher concentration of Information Technology and Communication Services. Developed Market ex-U.S. Equities may benefit from defense and infrastructure spending. Finally, another way to complement a globally allocated portfolio is through the inclusion of commodities. We favor Industrial and Precious Metals.

**Chart 1. Emerging markets have become more tech-focused over time**



Sources: Wells Fargo Investment Institute and Bloomberg, as of October 31, 2025. MSCI Emerging Markets Total Return Index defined in back. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

### 4) Position portfolios for lower short-term rates

We suggest that investors who have been enjoying elevated money market yields consider shifting from liquidity preservation to investments that we view as more likely to maintain purchasing power over time. For example, we prefer U.S. Large Cap and Mid Cap Equities in the equity asset group and U.S. intermediate term high-quality U.S. bonds, Residential Mortgage-Backed Securities, and U.S. Municipal Bonds in fixed income.

### 5) Harness the noise-reducing potential of alternatives and private assets

In our view, Private Infrastructure looks like an interesting place to consider adding assets for yield. Qualified investors might consider strategies that focus on reshoring production. Private Equity – Secondaries is another area of the market where we opportunity potential. Lastly, Macro – Discretionary may be an option for investors looking to navigate choppy (volatile) markets.

# Equities

**Lawrence Pfeffer, CFA**  
Equity Sector Analyst

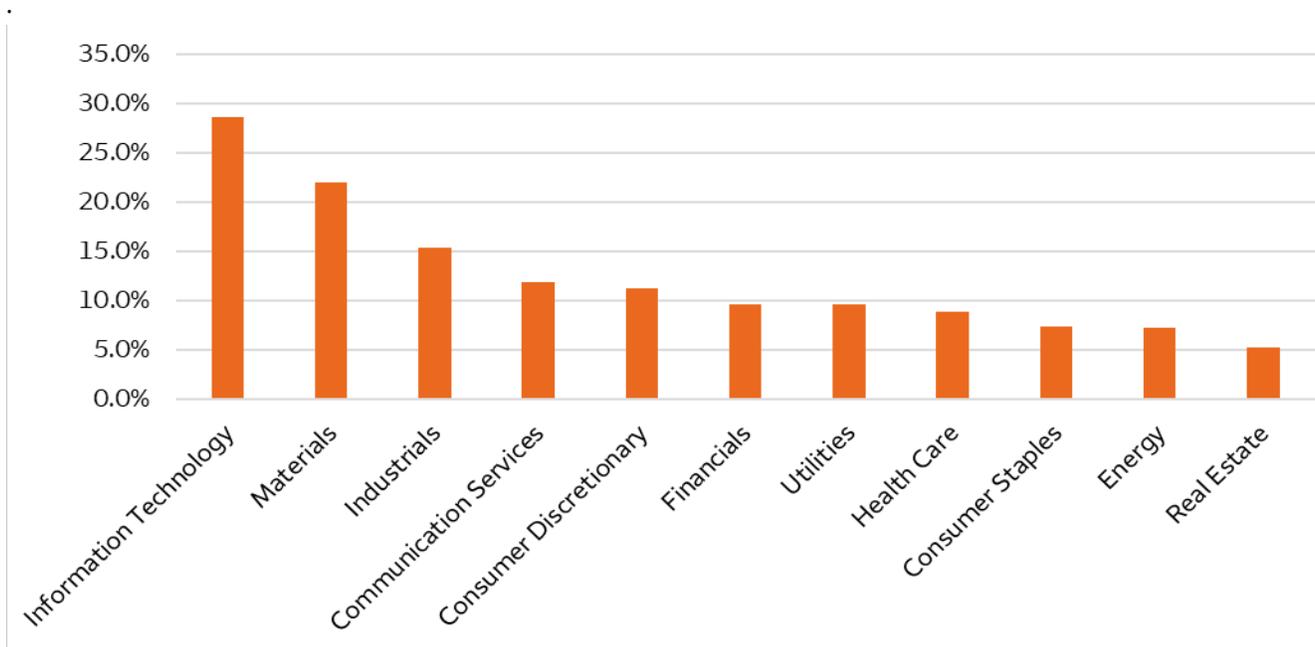
## Expect earnings growth to broaden and drive returns in 2026

We are optimistic about earnings and expect this to be a key driver of returns for equities in 2026. Our \$300 target for S&P 500 EPS in 2026 represents approximately 10% growth over 2025 levels. We expect investment in and revenues from AI to remain key contributors. However, we also expect lower short-term interest rates, favorable tax policy changes, and the lapping of tariff-related pressures to result in broader participation from non-tech sectors and more asset classes outside of just U.S. Large Cap Equities.

We see AI as a key theme, but we prefer to remain disciplined and nimble in allocating incremental capital. In recent quarters, we increased our allocations to Developed Market ex-U.S. Equities and EM Equities to neutral, along with upgrading sectors such as Industrials and Utilities to favorable, and upgrading Financials to most favorable. We believe it is important to maintain diversification. We also note that as AI evolves, we expect the capital expenditure impact and benefits from adoption are likely to create an evolving set of potential beneficiaries, which may be priced at lower multiples than existing beneficiaries.

We lean toward quality as a bedrock of our approach as this informs our asset class, sector, and sub-sector views. Our guidance may now incorporate greater representation across the broader equities universe, but we remain most favorable on U.S. Large Cap Equities. Within this context, we highlight areas such as Diversified Banks, Aerospace & Defense, and Transaction & Payment Processing Services as examples that offer the characteristics we value: sustainable competitive advantages, high margin rates or return on equity, balance sheet strength, and solid earnings growth.

**Chart 2. S&P 500 Earnings Growth: Calendar Year 2026 Bottom Up Consensus Estimates**



Sources: FactSet and Wells Fargo Investment Institute. Data as of December 19, 2025. Consensus data compiled by FactSet based on estimates provided by contributing firms.

## Fixed Income

**David Brandmire, CFA**

Taxable Analyst

### Corporate bonds are attractive in a higher-rate environment

In our view, corporate bonds are attractive, with investment-grade corporate bond yield-to-worst ending the year at about 4.80%. (Yield-to-worst is the lowest potential yield an investor can receive on a bond without the issuer defaulting.) Over the past 10 years, the average yield-to-worst for the investment grade bond market, included in Chart 3, was 3.82%. We expect corporate bond prices to trend higher toward the \$100 par amount as longer-dated bonds move closer to maturity — frequently referred to as roll-down return — and higher coupon new bond issues will come to market over the next few years.

**Chart 3. Bloomberg U.S. Corporate Bond Index average yield, coupon, and price**



Sources: Bloomberg and Wells Fargo Investment Institute. Pricing as of December 29, 2025. YTW = yield-to-worst. rhs = right hand side. An index is unmanaged and not available for direct investment. The Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. **Past performance is no guarantee of future results.**

Investment-grade corporate issuers typically maintain strong balance sheets with management teams that drive strong margins and fiscal discipline. The higher interest rate environment and inflationary pressures have pushed interest rate coverage for some BBB-rated issuers lower over the past few years. We believe investors reaching for yield or lower-quality issuers may benefit from being more selective and disciplined in purchasing individual bonds.

We believe investors should consider a laddered portfolio of high-quality corporate bonds, while incrementally adding new issuance with high yields from intermediate-term bonds. In contrast, lower returns and interest rate volatility from short-term fixed income may become less attractive as we expect monetary policy to push the target discount rate lower.

## Real Assets

### Mason Mendez

Investment Strategy Analyst

### Looking ahead into 2026

Commodities showed strong performance in 2025, with a 19% total return, primarily driven by rallies in precious and industrial metals (as of December 26, 2025). Looking ahead, we believe commodities are positioned well to benefit from our expectations for an improving macro environment, lower short-term rates, and a subdued, but stable U.S. dollar. Additionally, Commodities’ historically low correlations to other asset classes could be beneficial for portfolios as we expect market volatility and headline noise to persist in 2026. As seen in Chart 4, Commodities have shown relatively low correlations to other assets over the past 25 years.

On the sector side, we remain favorable on Precious Metals as near-term policy uncertainties persist, and lower interest rates support gold’s attractiveness against interest-bearing assets. We also favor Industrial Metals amid our expectations for an improving macro environment, industrial re-shoring efforts by the U.S., and thematic demand drivers such as the buildout of AI data centers and electrification.

While we see strengths in metals, we have concerns around energy and agriculture, which could temper the Bloomberg Commodity Index’s performance. Namely, a well-supplied oil market and the potential for further supply growth from OPEC+<sup>1</sup> will likely keep oil prices rangebound. As for agriculture, ample global supply and favorable harvests in key growing regions, such as Brazil, will likely be a headwind for meaningful performance gains.

Overall, we remain neutral on Commodities as a whole but see the potential for Precious Metals and Industrial metals to outperform the Bloomberg Commodity Index given their supportive macro and fundamental tailwinds. We recommend that investors continue to hold a full allocation to Commodities, and believe their historically low correlation to other asset classes, such as equities and fixed income, could potentially support portfolios amid another year of policy uncertainties and headline noise.

**Chart 4. Commodity monthly return correlations since 2000**

	<b>Bloomberg Commodity Index</b>	<b>S&amp;P 500 Index</b>	<b>U.S. Mid Cap Equities</b>	<b>U.S. Small Cap Equities</b>	<b>Developed Market Equities</b>	<b>Emerging Market Equities</b>	<b>Bloomberg U.S. Aggregate Bond Index</b>
Bloomberg Commodity Index	1.00						
S&P 500 Index	0.39	1.00					
U.S. Mid Cap Equities	0.44	0.95	1.00				
U.S. Small Cap Equities	0.36	0.88	0.95	1.00			
Developed Market Equities	0.51	0.86	0.86	0.78	1.00		
Emerging Market Equities	0.53	0.74	0.76	0.70	0.84	1.00	
Bloomberg U.S. Aggregate Bond Index	0.00	0.13	0.14	0.08	0.19	0.18	1.00

Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data is from November 2000 – November 2025. The table measures monthly correlations over the entire period since 2000. An index is unmanaged and not available for direct investment. Mid cap equities are represented by the Russell Mid Cap Index, small cap equities are represented by the Russell 2000 Index, developed markets are represented by the MSCI EAFE Index, and emerging markets are represented by the MSCI Emerging Markets Index **Past performance is no guarantee of future results.**

1. Organization of Petroleum Exporting Countries and its allies.  
 © 2026 Wells Fargo Investment Institute. All rights reserved.

# Alternatives

**Mark Steffen, CFA, CAIA**

Global Alternative Investment Strategist

## Consider alternatives to prepare for the year ahead

As we begin 2026, we believe several dynamics are shaping the case to consider incorporating alternative investments for qualified investors, including:

### 1) Prepare for high volatility

As we expect periods of high volatility in the year ahead, qualified investors may consider allocating to strategies that historically have not been highly correlated with traditional markets to attempt to reduce portfolio risk. Hedge fund sub-strategies like Long/Short Equity and Long/Short Credit are flexible approaches that seek to manage risk and return through active positioning. These sub-strategies involve significant complexity and risk, including leverage and illiquidity.

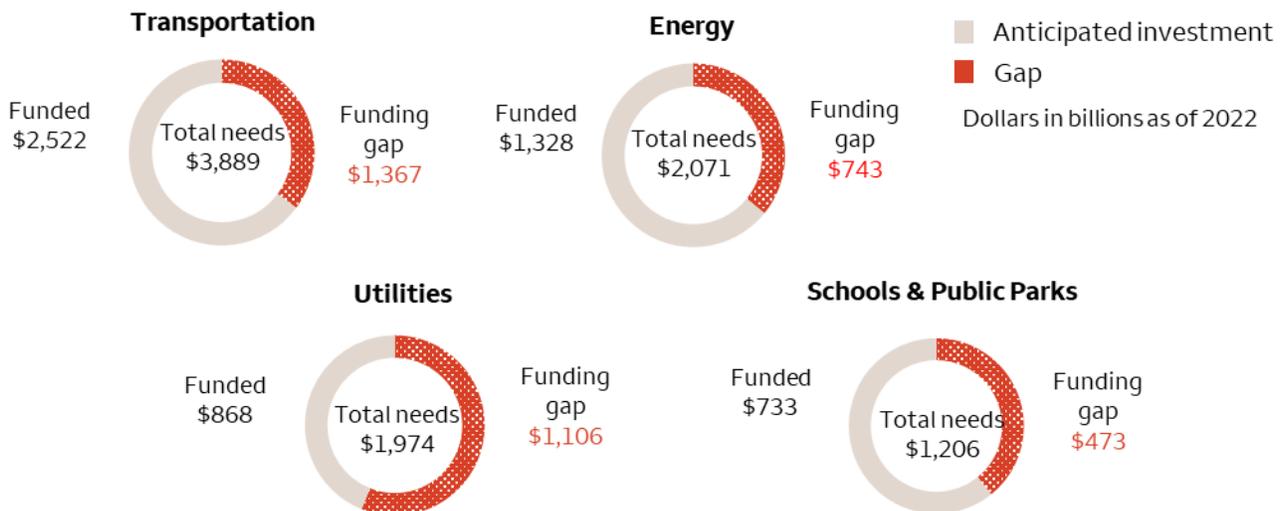
### 2) Momentum in M&A activity

We believe the rebound in M&A that began in 2024 is likely to persist, supported by our expectations for easing economic uncertainty, lower short-term interest rates, and deregulation. The Event Driven — Merger Arbitrage sub-strategy attempts to gain from the spread between the target company’s current stock price and the proposed acquisition price and may benefit as M&A deal flow recovers. Yet, periods of higher market volatility may lead to greater economic uncertainty and a higher level of deal failure.

### 3) Rising capital demand for infrastructure

Private Infrastructure also earns our favorable guidance, driven by our view of potential structural tailwinds such as aging U.S. infrastructure and the rising demand for digital assets. The American Society of Civil Engineers (ASCE) expects continued gaps between government-infrastructure spending and the 10-year funding that ASCE believes is necessary (Chart 5). We see a growing role for private capital to close this gap in high-barrier to entry, income-generating assets like transportation, utilities, and data networks. Private-Infrastructure investments may benefit from long-term trends but involve risks, including regulatory changes and project delays.

**Chart 5. Anticipated 10-year funding gaps to improve infrastructure assets**



Source: ASCE 2025 report card. Data as of March 25, 2025. Assumes continued investment support from appropriation amounts set by the 2021 IIJA, 2022 IRA, and other legislation.

Alternative investments, such as hedge funds, private equity, private debt and private real estate funds are not appropriate for all investors and are only open to “accredited” or “qualified” investors within the meaning of U.S. securities laws.

## Tactical guidance\*

### Cash Alternatives and Fixed Income

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Long Term Taxable Fixed Income  U.S. Short Term Taxable Fixed Income	Cash Alternatives  Developed Market Ex-U.S. Fixed Income  Emerging Market Fixed Income  High Yield Taxable Fixed Income	U.S. Intermediate Term Taxable Fixed Income	

### Equities

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Small Cap Equities	Developed Market Ex-U.S. Equities  Emerging Market Equities	U.S. Large Cap Equities  U.S. Mid Cap Equities	

### Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Commodities  Private Real Estate	Private Infrastructure	

### Alternative Investments\*\*

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Hedge Funds—Equity Hedge  Hedge Funds—Macro  Hedge Funds—Relative Value  Private Equity  Private Debt	Hedge Funds—Event Driven	

Source: Wells Fargo Investment Institute, January 5, 2026.

\*Tactical horizon is 6-18 months

\*\*Alternative investments are not appropriate for all investors. They are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. Please see end of report for important definitions and disclosures.

## Risk 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. **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. 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. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund 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. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

## Definitions

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.

Bloomberg Galaxy Crypto Index (BGCI) is a benchmark designed to measure the performance of the largest cryptocurrencies traded in USD.

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

Bloomberg U.S. Corporate Bond Index includes publicly issued U.S. corporate and Yankee debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

MSCI All Country World Index (MSCI ACWI) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 developed and 26 emerging markets.

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.

MSCI Emerging Markets Net Total Return Index is a free float-adjusted capitalization Index that is designed to offer a representation of equity market performance of emerging markets.

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.

Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index. 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.

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 Consumer Discretionary Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

S&P 500 Consumer Staples Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

S&P 500 Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

S&P 500 Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

S&P 500 Health Care Index comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

S&P 500 Industrials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials 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.

S&P 500 Materials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

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.

S&P 500 Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS utilities 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-07012027-8686975.1.1

©2026 Wells Fargo Investment Institute and subject to the CC BY-NC-ND 4.0 DEED. All rights reserved. v07.23.25



# Market Commentary

Weekly perspective on current market sentiment

January 7, 2026



**Scott Wren**

Senior Global Market Strategist

Last week's S&P 500 Index: -1.0%

## Trendlines not headlines

### Key takeaways

- We are looking through the headlines and see economic and policy trends that should drive the economy and capital markets in 2026.
- Focus on the trends that will drive innovation, the economy, and earnings, all while keeping an eye open for new opportunities.

2025 certainly created lots of headline fatigue around rapid and sometimes abrupt changes, both in government policies and in the technological revolution that is artificial intelligence (AI). But we are looking through the headlines and see economic and policy trends that should drive the economy and capital markets in 2026.

We are focused on four key trends this year: the resiliency of AI-related capital expenditures that will positively impact a number of segments of the economy, big consumer tax refunds this spring and other business-tax enhancements, the Federal Reserve continuing to lower interest rates, and deregulation.

Perhaps the most important trend is the current wave of technological advancements in AI. The potential for this technology to be an economic and productivity enhancement driver helped push the S&P 500 to a series of record highs last year. Virtually all of the largest publicly traded companies in the world are closely tied to the AI revolution. The two best performing sectors in 2025 were Information Technology and Communications Services, both of which have a high concentration of tech and tech-like companies that are on the forefront of AI development and usage.

Productivity is a buzzword we expect to hear even more of in 2026 versus last year as companies look to operate in an environment that features a tighter labor supply and tariffs. Protecting operating margins by reducing costs, increasing automation, and improving operating productivity through the use of AI will continue to be a theme this year.

But the tentacles of the AI revolution are reaching well beyond the Tech and Communications Services sectors. Our guidance reflects an effort to retain meaningful exposure to the secular AI trend through full allocations to these two sectors but to also look at other sectors that will benefit from the infrastructure build-out required to employ this technology. Companies that are building the data centers needed to power the surge in AI demand are in the Industrials sector. And, of course, the electrical power needed to run these data centers will be supplied by companies in the Utilities sector.

Many of our regular readers may have noticed over the course of the last year that some internet search engines and online retailers have been using AI to do everything from consolidating and summarizing search results to making purchase recommendations for their users. These are very early stage productivity-enhancing applications that consumers currently use in their everyday lives and represent just a hint of the promise of even greater benefits that lie ahead in the coming years.

Industry segments such as Midstream Energy and Machinery, Electrical Equipment, and Data Center Real Estate Investment Trusts (REITs) include companies that are emerging as critical contributors. In addition, the increased electrical-power demands leave us favorable on Industrial Metals, such as copper.

Focus on the trends that will drive innovation, the economy, and earnings in the quarters ahead, all while keeping an eye open for new opportunities.

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

### Risk 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. **Technology** and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

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.

### 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-07072027-8694224.1.1

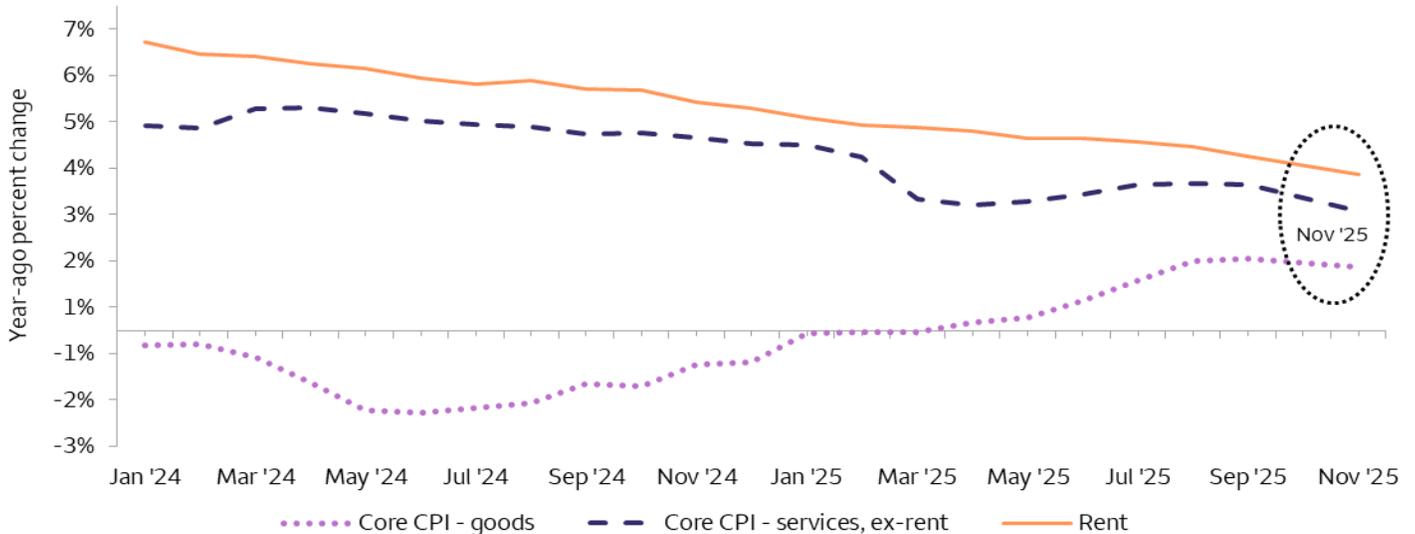


# Chart of the Week

Weekly analysis of key themes in markets

January 6, 2026

## The balancing act keeping a lid on inflation



Source: Bureau of Labor Statistics. Data from January 2024 – November 2025; current as of December 18, 2025. CPI = Consumer Price Index. Core CPI excludes the CPI's food and energy components. An index is unmanaged and not available for direct investment.

### Services disinflation and muted goods inflation have combined to limit price increases

Despite market worries about tariff-related inflation in 2025, 12-month increases in the headline and core Consumer Price Index (CPI) have been remarkably steady for the late stages of an economic growth cycle. Inflation in the core CPI (excluding food and energy) was held to a moderate 2.6% – 3.1% range during most of 2025. Inflation in that CPI component was restrained by disinflation in usually sticky services — accounting for over 75% of the core CPI — that helped offset inflation in core goods.

As shown in the chart above, services disinflation has been driven by slowing price increases for rents and by an even more noticeable disinflation for the CPI's slightly smaller component for other services prices. Meanwhile, the goods component of core CPI has emerged slowly in the past year from deflation to a modest sub-2% inflation rate. Even price increases for tariff-sensitive goods have been below core inflation, partly because more drawn-out implementation has kept the average effective tariff rate more muted than we expected last spring.

#### What it may mean for investors

We expect further disinflation in both core and the broader topline CPI during most of 2026 to occur alongside strengthening economic growth, as rental and other services inflation slows and as productivity gains — tied to artificial intelligence and businesses' response to labor-supply constraints — combine with deregulation to suppress business costs. In our view, these forces are among the positive, durable trends shaping our 2026 outlook, likely overshadowing bouts of market volatility and setting the stage for a constructive economic backdrop and further financial-market gains.

#### Global Macro Strategy team

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

### **Risk 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.

### **Definitions**

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

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-07012027-8687232.1.1