WELLS FARGO
Investment Institute

EXECUTIVE SUMMARY

2026 Midyear Outlook

Targets as of June 16, 2026

Keeping discipline in noisy markets

Economy and exchange rates

We expect full-year, inflation-adjusted U.S. gross domestic product (GDP) growth in 2026 of 2.2%. The boom in artificial intelligence (AI) and other technology spending is triggering a rotation from consumer- to investment-led growth. There has been a parallel shift from services to manufacturing-led strength, paced by AI-related capital spending and accelerated during the Iran war by a shortage mentality encouraging inventory building.

We expect a squeeze on household purchasing from a war-related bulge in energy, food, and core-goods inflation to hit hardest at lower-income finances already pressured by slowing wage growth, the elevated cost of essentials, and a historically low savings rate.

We anticipate a resilient economy and modest labor-force growth to temper AI-related disruptions in limiting the rise in the unemployment rate. We believe AI's job-enhancement opportunities and revenue-driven gains in hiring will exceed job displacement.

We believe restraints on food, energy, and core-goods inflation will combine with disinflation in rental and other services to leave overall 12-month Consumer Price Index (CPI) inflation at 3.4% by year-end 2026.

The U.S. dollar's value likely faces cross currents that leave it range-bound in 2026 against developed and emerging currencies alike. U.S. energy abundance should support U.S. economic growth (and the dollar) compared to overseas economies and their currencies. However, the extra energy-price-related inflation in those countries could narrow international interest differentials and weigh on the U.S. dollar.

	2026 targets	2027 targets
U.S. GDP growth	2.2%	2.4%
U.S. CPI inflation[1]	3.4%	2.8%
U.S. unemployment rate[2]	4.7%	4.9%
Global GDP growth[3]	3.1%	3.2%
Dollar/euro exchange rate	$1.14–$1.18	$1.17–$1.21

Source: Wells Fargo Investment Institute. Targets for 2026 and 2027 are based on forecasts by Wells Fargo Investment Institute as of June 16, 2026, and provide a forecast direction over a tactical horizon through 2027. 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.**

1. December-to-December change.
2. Fourth-quarter average, percent of labor force.
3. Weighted average of developed-country and emerging-market forecasts.

Fixed income

Higher-for-longer energy prices are likely to keep inflation and interest rates elevated, limit the Federal Reserve's (Fed) flexibility to cut short-term interest rates, and create upward pressure on long-term rates (lower bond prices).

We expect the Fed to maintain a cautious, wait-and-see approach. Fed officials broadly view the neutral-policy rate near current levels, limiting the urgency to either ease or tighten policy. We do not expect any Fed rate cuts or hikes between now and year-end 2027.

We anticipate continued yield-curve steepening through year-end 2027. We continue to view intermediate-term fixed income (3-7 year maturities) as offering an attractive balance between income and interest-rate risk.

Municipal-bond credit fundamentals remain generally solid, supported by strong reserve levels, conservative budgeting, and steady revenue collections. Looking ahead, credit pressure could build in select areas, particularly those with meaningful exposure to federal funding.

	Year-end 2026 targets	Year-end 2027 targets
Federal funds rate	3.50%–3.75%	3.50%–3.75%
10-year U.S. Treasury yield	4.25%–4.75%	4.50%–5.00%
30-year U.S. Treasury yield	5.00%–5.50%	5.25%–5.75%

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Equities

The central pillar of our equity outlook remains continued earnings growth despite ongoing uncertainties about the Iran war and periodic questioning about technology's long-term role in the economy. AI is now the dominant trend, but rising net profit margins pre-date AI and reflect accumulated technology investment from recent decades.

We expect AI capital investments to remain elevated for the foreseeable future. What's more, we expect the trend to extend into power generation, grid infrastructure, electrical equipment, engineering services, and machinery, supported by a diverse set of capital-markets players.

Our sector views now place greater emphasis on the AI capital-formation cycle underway, favoring Information Technology, Industrials, Materials, Utilities, and Financials.

We view U.S. Large Cap Equities favorably. This asset class generally has strong balance sheets, pricing power, diverse and global revenue streams, and the ability to self fund capital investment. We believe U.S. Mid Cap Equities also benefit from the current economic environment as well as the AI theme, and we retain a favorable outlook. In contrast, we see less upside for U.S. small-cap equities through year-end 2026 and maintain our unfavorable rating.

A balance of factors leaves us neutral on both Developed ex-U.S. and Emerging Market Equities. Earnings prospects for Emerging Market Equities are improving, with the MSCI Emerging Markets Index's exposure to AI having grown in recent years. However, a prolonged Mideast conflict remains a risk for energy-importing overseas economies.

	Year-end 2026 targets	Year-end 2027 targets
S&P 500 Index	7,800–8,000	8,600–8,800
Earnings per share	$345	$390
Russell Midcap Index	4,400–4,600	4,800–5,000
Russell 2000 Index (small cap)	2,700–2,900	3,100–3,300
MSCI EAFE Index	3,100–3,300	3,300–3,500
MSCI Emerging Markets Index	1,700–1,900	2,000–2,200

Source: Wells Fargo Investment Institute. All targets for 2026 and 2027 are based on forecasts by Wells Fargo Investment Institute as of June 16, 2026, and provide a forecast direction over a tactical horizon through 2027. **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

Energy and Agricultural commodities led the Bloomberg Commodity Index at times during the first half of 2026. Higher energy prices are flowing through into commodities, particularly Agriculture, via higher input costs. Rising transportation and machinery costs compound the pressures, raising the likelihood for sticky agriculture prices even as immediate disruptions fade.

Energy prices could rise further as shortages develop, but we see both sides in the war under pressure to find a diplomatic solution. Some oil-price premium to account for possible future conflict will likely remain after the war ends, but we expect some production surplus.

We see an improving backdrop for metals. Our Precious Metals outlook is driven by historically low inflation-adjusted yields, low enough to encourage investors to buy a non-yield asset such as gold. Industrial Metals should benefit from structural demand growth in technology-related investment.

Within Real Estate Investment Trusts (REITs), we prefer sub-sectors with greater exposure to secular growth drivers, including Data Center REITs, Health Care REITs, and Industrial REITs.

We recently initiated guidance on digital assets as a sector of Commodities and are recommending a 2% –3% allocation within Growth and Growth and Income investment objectives.

	Year-end 2026 targets	Year-end 2027 targets
West Texas Intermediate crude ($ per barrel)	$80–$90	$70–$80
Brent crude ($ per barrel)	$85–$95	$75–$85
Gold ($ per troy ounce)	$5,300–$5,500	$5,800–$6,000
Bloomberg Commodity Index (total return)	360–380	380–400

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Alternative investments

We believe the race for AI leadership, ongoing geopolitical events, and growing inflationary pressures could lead to greater market volatility and create potential opportunities in alternative strategies such as hedge funds and private capital.

In private equity, we continue to focus on higher-quality strategies that invest in more established companies.

We favor a diversified alternatives allocation that emphasizes flexible strategies, downside protection, and selective exposure to long-term growth themes like AI while maintaining caution in areas facing near-term liquidity or credit risks.

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 Total Return Index reflects the returns that are potentially available through an unleveraged investment in the futures contracts on 19 physical commodities comprising the Index plus the rate of interest that could be earned on cash collateral invested in specified Treasury Bills. The Index is a rolling index rebalancing annually.

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 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.

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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