WELLS FARGO
Investment Institute

EXECUTIVE SUMMARY

2025 Outlook

2025 targets as of December 10, 2024

Charting the economy's next chapter

Economy and exchange rates

We view postelection clarity, economic policy, and early-year disinflation as catalysts for stronger and more balanced growth across U.S. economic segments in 2025. Business and consumer confidence are reviving while election-related uncertainties fade. Business inventories are likely to build ahead of expected new tariffs, which should bolster manufacturing. The extended rally in equity prices has helped upper-income households drive consumer spending. Looking ahead, wages are still outpacing inflation and should support improved spending growth among lower-income households.

We also expect some modest international economic improvement, thanks to lower interest rates and fiscal stimulus. However, greater regulation than in the U.S., declining populations along with insufficient regional economic integration, and fiscal restraint in Europe are international economic headwinds that should keep the U.S. in the lead.

We anticipate Consumer Price Index (CPI) inflation will rise to a 3.3% annual pace by year-end 2025. Several trends are worth watching in this regard. First, any pickup in household or business activity that demands additional factory capacity should quickly lift production costs and consumer inflation. Second, fuel and services costs (for example, medical insurance and shelter rents) could add pressure. Finally, any new tariffs could boost goods prices while potential immigration restrictions could raise wages and feed into inflation.

Our bias remains for moderate U.S. dollar upside, particularly in the back half of 2025, supported by interest-rate and economic growth differentials that favor the dollar. A global economic recovery in the second half of the year with clear-cut U.S. growth leadership and a disappointing European rebound should hamper the move of capital away from the U.S.

Average percent change in the latest four quarters from the same year-ago period, unless otherwise noted.

	2024 latest*	2025 target
U.S. GDP growth	2.9% (Q3)	2.5%
U.S. inflation[1]	2.6% (Oct.)	3.3% (Dec.)
U.S. unemployment rate[2]	4.1% (Oct.)	4.8% (Dec.)
Global GDP growth[3]	3.4% (Q3)	2.6%
Dollar composite exchange rate[4]	106	108 – 112

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest economic data as of November 29, 2024. Targets for 2025 are based on forecasts by Wells Fargo Investment Institute as of December 10, 2024. **GDP figures calculated using average percent change from the same period a year ago.** Q3 = third quarter. GDP = gross domestic product.

1. Latest month percent change from a year ago. 2. Three-month average as of the date indicated, percent of labor force. 3. Weighted average of developed country and emerging-market forecasts. 4. The ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, composed of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc. A higher index value indicates dollar appreciation. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

Fixed income

In our view, the Federal Reserve (Fed) has leeway to cut interest rates further in the early months of 2025 while inflation permits. However, we look for the Fed to proceed cautiously through the remainder of the year, cutting rates only twice more between December 2024 and the end of 2025.

We expect the bond market to remain sensitive to policy changes and the economy, especially inflation. We favor staying alert to potential fixed-income price volatility when considering maturity selection.

Overseas, we expect European fixed-income yields to decline gradually while Japanese yields will likely remain near current low levels. We expect a strong U.S. dollar, which would then undermine expected currency returns on international developed-market ex-U.S. fixed income. We retain our neutral rating on Developed Market Ex-U.S. Fixed Income. The global environment remains mixed for emerging-market debt. We maintain our neutral outlook on Emerging Market Fixed Income denominated in dollars.

	2024 latest*	2025 year-end target
Federal funds rate	4.50% – 4.75%	4.00% – 4.25%
10-year U.S. Treasury yield	4.17%	4.50% – 5.00%
30-year U.S. Treasury yield	4.36%	4.75% – 5.25%

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest market data as of November 29, 2024. Targets for 2025 are based on forecasts by Wells Fargo Investment Institute as of December 10, 2024. **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.**

Equities

Earnings should be the primary driver of 2025 prices across equity asset classes. We look for a broadening and acceleration of economic growth to fuel healthy top-line sales growth while the past two years' focus on cost control should help turn revenue growth into profit growth.

Valuations also should support earnings growth. Notably, the S&P 500 Index price-to-earnings (P/E) multiple was higher 12 months after the Fed began interest-rate cuts in all but one case since 1980 (past performance is no guarantee of future results). Anticipated deregulation and tax-cut extensions should help. Possible tariffs and immigration controls are negatives, but their impacts may take most of 2025 to develop. Taking all these anticipated policies together, we assess that the net effect likely will be positive for the economy and equity markets. Collectively, we expect these factors to support our year-end 2025 S&P 500 Index midpoint of 6,600.

Mid-cap and small-cap companies should finally earn a reprieve from high borrowing costs. We expect that easing credit conditions will improve the return potential for these asset classes in 2025. Among the S&P 500 Index sectors, a mix of secular earnings drivers and attractive P/E multiples has brought Communication Services, Energy, Financials, and Industrials to the top of our sector ranking. As markets evolve through 2025, we expect opportunities to upgrade these and other sectors whose business models perform best under long-term growth and the improving economic cycle. By contrast, we rate the defensive Consumer Staples and Utilities sectors as unfavorable.

	2024 latest*	2025 year-end target
S&P 500 Index	6,032	6,500 – 6,700
Earnings per share (EPS)	$243	$275
Russell Midcap Index	3,807	4,100 – 4,300
Russell 2000 Index (small cap)	2,435	2,700 – 2,900
MSCI EAFE Index	2,316	2,400 – 2,600
MSCI Emerging Markets Index	1,079	1,100 – 1,300

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest EPS figures are Bloomberg consensus estimates for full-year 2024 EPS as of November 29, 2024. All other latest numbers from Bloomberg as of November 29, 2024. Targets for 2025 are based on forecasts by Wells Fargo Investment Institute as of December 10, 2024. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

Real assets

We believe commodities have been in a bull super-cycle since March 2020.[1] Super-cycles are prone to short-term corrections brought about by economic weakness. We believe such a correction began in July 2022 amid lingering concerns of a global economic slowdown. In our view, the super-cycle remains intact as global demand seems set to recover and tight supply conditions across many key commodities persist.

We remain neutral on the S&P 500 Index Real Estate sector but see opportunities in certain Real Estate Investment Trust (REIT) sub-sectors.

We favor holding a basket of commodities to gain exposure to the re-acceleration of the bull super-cycle but prefer to await clarity around the economic turning point before increasing allocations to REITs.

	2024 latest*	2025 year-end target
West Texas Intermediate crude (per barrel)	$68	$85 – $95
Brent crude (per barrel)	$73	$90 – $100
Gold (per troy ounce)	$2,643	$2,800 – $2,900
Bloomberg Commodity Index (total return)	236	250 – 270

Sources: Wells Fargo Investment Institute and Bloomberg. *Latest market data as of November 29, 2024. Targets for 2025 are based on forecasts by Wells Fargo Investment Institute as of December 10, 2024. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

Alternative investments

We favor transitioning to strategies potentially poised to benefit from accelerating economic growth. In Private Capital, we maintain our favorable guidance on Growth Equity and Small-Mid Buyout strategies as deal activity continues to highlight preferences for quality growth and less debt. If economic growth accelerates in 2025, as we expect, we favor allocating to strategies with the flexibility to adjust to changing market conditions, such as Equity Hedge – Directional, Relative Value – Long/Short Credit, and Macro – Discretionary.

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.

1. Throughout history, commodity prices have moved together through long-term bull and bear cycles known as super-cycles.

Risk considerations

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

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

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

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio’s vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

Definitions

Bloomberg Commodity Index is composed of 23 exchange-traded futures on physical commodities weighted to account for economic significance and market liquidity.

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

MSCI EAFE Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

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

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

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

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

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

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

An index is unmanaged and not available for direct investment.

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