

# WELLS FARGO

## Investment Institute

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## 2025 Midyear Outlook: Opportunities amid uneven terrain

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The first half of 2025 has seen rapid and often unpredictable policy changes, which have left many investors feeling uncertain. We believe these uncertainties will be in play for the next few months, if not longer. Even if countries negotiate lower tariffs with the U.S., the tariffs that remain should still produce a spike in inflation and then an economic slowdown. But we think the U.S. economy will avoid a recession with a cushion from Federal Reserve interest-rate cuts, tax relief, and deregulation. In fact, we're looking for these positives to help fuel a mild economic recovery towards the end of 2025 and into 2026.

The prospect of a slowdown, followed by a recovery presents an opportunity for long-term investors to consider increasing positions in high-quality U.S. asset classes and sectors, specifically U.S. large- and mid-cap equities. We view companies – with historically strong balance sheets, good cash flow, low debt and long-term growth prospects – as well-equipped to confront the economic impacts of tariffs. Investors also may want to position long-term portfolios for future economic expansion potential. At the sector level, we believe investors should consider increasing exposure to the Information Technology, Communication Services, Financials, Energy, and Utilities sectors. We prefer building exposure incrementally if market drawdowns create buying opportunities as we expect.

Quality is also our theme in fixed income. We recommend investors be selective and focus on investment-grade corporate bonds and municipal bonds. We favor maturities of 3-7 years, an intermediate range, because we expect similar yields but much less price and yield volatility than from longer-dated maturities.

In real assets, we favor a broad allocation of commodities - that give exposure to precious metals during times of policy stress but also adds energy and industrial commodities to prepare for the economic recovery we expect.

Finally, for qualified investors, we believe adding alternative strategies to a portfolio of stocks and bonds may help build a more resilient portfolio better able to withstand periods of market volatility.

For more of our insights and guidance for the rest of the year and beyond, read our special report: 2025 Midyear Outlook: Opportunities amid uneven terrain.

## Disclosures

**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. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **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. **Technology** and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market. **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. **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. 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.

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