WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment May 7, 2025

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +2.9%

Trade deals and rate decisions

Key takeaways

- One can make a reasonable argument that at least some of the recent stock market bounce higher can be attributed to anticipation that some trade deals will be announced in the near term.
- Further near-term upside in the S&P 500 Index is likely limited, and we expect to see more downside volatility before the tariff uncertainties are resolved.

Let's get one thing out of the way right off the bat: We do have three interest-rate cuts penciled in this year if the economy slows in coming quarters and the unemployment rate rises as we expect. Our central bankers keep telling us they are "data dependent." That means Chair Powell and the other voting Federal Open Market Committee (FOMC) members need to see the data that tells the Federal Reserve the labor environment is weak and/or inflation readings are coming down in a consistent fashion. For now, we believe it appears the economy has not slowed enough for policy makers to deliver a rate cut this week.

Now we can move to what we believe, for now, are the most important topics at hand: tariffs and trade negotiations. We know that tariffs have real economic costs. Prices/inflation tend to rise and then the economy tends to slow. We are now hearing some retailers stating that they will have fewer goods on their shelves in coming months and quarters if current tariff levels persist (i.e., think clothing and toys). But the president over the weekend hinted that there could be trade deals announced as early as this week. Last week, Treasury Secretary Scott Bessent told reporters that a trade deal with India was "very close." One can make a reasonable argument that at least some of the recent stock bounce higher off the lows can be attributed to anticipation that some trade deals will be announced in the near term. These deals do not necessarily need to be with our largest trade partners like China or the European Union to help calm some investor nerves on the tariff front. Deals with our largest partners will take time, but unless and until the deals come — especially with Mexico, Canada, Europe, and China — the increase in consumer goods prices and the slower pace of private spending will be tangible.

Investors want to know now if we have seen the bottom in the stock market and if the day-to-day volatility is going to continue. We currently do not know if or how soon these deals may come, nor do we know if the president will add sectoral tariffs on pharmaceuticals and electronics. In our view, further near-term upside in the S&P 500 Index is likely limited and we expect to see more downside volatility before the tariff uncertainties are resolved and other positives (tax cuts, deregulation, and lower interest rates) help the economy gain traction again, potentially in the autumn.

In the meantime, we are looking into 2026 and seeing an economic and earnings recovery. For now, while volatility remains the likely headline, we prefer to focus on quality, like large- and mid-cap U.S. equities, and favor the Energy, Communication Services, Information Technology, and Financials sectors. Be selective in fixed income. We prefer investment-grade corporates and essential-service municipals in the three to seven year maturity range. Quality and selectivity should lead the way as a recovery develops and could provide some stability on days when the news is negative.

Risk considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

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. **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. **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.

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. **Communication services** companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. 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.

Definitions

Investment Grade bonds - A rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

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-11062026-7939347.1.1