



Market Commentary

Weekly perspective on current market sentiment

October 15, 2025



Scott Wren

Senior Global Market Strategist

Last week's S&P 500 Index: -2.4%

Back on the front burner

Key takeaways

- Just when much of the investing public had pushed the tariff issue to the back burner we received a harsh reminder that the US and China had yet to really nail down a solid trade deal.
- But as we move through 2026, there are several positive factors to consider that we believe will be more important than the transitory impacts of tariffs.

Last week's tumble in the S&P 500 index (SPX) was the worst since April 10. Just when much of the investing public had pushed the tariff issue to the back burner, we received a harsh reminder that the United States and China, the two biggest economies in the world by far, had yet to really nail down a solid trade deal that markets could count on going forward. Financial markets are clearly sensitive to the ebb and flow of U.S. and Chinese tariff standoffs and negotiations.

Both countries have at least some degree of leverage over the other. The U.S. is a huge buyer of Chinese-produced goods, which are produced by tens of millions of Chinese workers. China, as we were reminded last Friday, is the world's largest producer of rare earth minerals (REM) and processes over 90% of the world's refined rare earths and magnets. For those that are not fully up to speed on REMs, they are used in many everyday technologies that many take for granted like smartphones, televisions, laptops and LED lighting in addition to electric and hybrid vehicles.

So a trade war with tariffs and supply chain disruptions at the core has an impact on economic growth and inflation. But so far it appears that producers and middlemen have taken the brunt of the tariff costs. But we expect more of a gradual consumer price impact in coming months, and as we move into the early stages of next year. These impacts will likely result in somewhat higher inflation and slower domestic GDP (Gross Domestic Product, a measure of U.S. output) over the next couple of quarters.

But as we move through 2026, there are several positive factors to consider that we believe will be more important than the transitory impacts of tariffs. The short list includes a Federal Reserve that we believe will continue to cut interest rates, meaningful artificial intelligence (AI)-related capital expenditures spending that will help push the domestic economy toward what our work suggests will be a 2.4% growth rate next year, noticeable deregulation across a number of sectors, and impactful tax cut regulation that will kick in after the start of the new year.

Our portfolio preferences encompass a lean toward sectors of the economy that we expect should benefit from these trends. One of the most important features of these trends is that they converge in a way that reinforces their individual effects. Financials remain our most favored equity sector, staged to benefit from deregulation, an improved economy, and a better merger and acquisition environment. We also favor the Information Technology sector as well as the Utilities and Industrials sectors, which are poised to benefit from the AI-related buildout of data centers and the upgrade of the electrical grid needed to power those data centers. From a higher level, we continue to favor large and mid-caps over small cap equities and domestic equity markets over international.

With tariff and trade issues likely to be back on the front burner with the potential to create volatility in the nearer term, we view pullbacks as opportunities to add equity exposure in our favored sectors.

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

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. **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.

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. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. 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. **Utilities** are sensitive to changes in interest rates, and the securities within the sector can be volatile and may underperform in a slow economy.

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-04142027-8497969.1.1