WELLS FARGO
Investment Institute

December 2024

2025 Outlook: Charting the economy's next chapter

Presenter: Jennifer Timmerman, Investment Strategy Analyst, Wells Fargo Investment Institute

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Through 2024, the U.S. economy gradually slowed. The strain of high interest rates weighed down housing, manufacturing, and many small businesses, but household spending — especially on services — remained strong, masking some of these soft spots. In 2025, we expect these divergences to narrow, thanks to lower short-term interest rates and easier credit access. We also view postelection clarity, economic policy, and early-year disinflation as catalysts for renewed economic momentum. And we believe this will mark a new chapter of more balanced and sustained economic growth that keeps the U.S. economy as the global leader.

We encourage investors to read our *2025 Outlook: Charting the economy's next chapter*. In it, we provide our highest-conviction investment ideas to position portfolios for 2025 and beyond.

In equities, the dominance of the U.S. economy positions us to favor U.S. over international equity markets.

We prefer high-quality U.S. large cap stocks. However, domestic mid-cap and small-cap equities should become more attractive as the U.S. economy gathers momentum in 2025.

We favor cyclical and growth-oriented sectors over defensive ones, including Communication Services, Energy, Financials, and Industrials. We prefer equity sectors that we expect will outperform as economic strength broadens and strengthens.

In fixed income, we think U.S. Treasury yields will remain in flux, but long-term yields should finish the year higher. We prefer to move capital away from ultra-short-term investments in money markets and U.S. Treasury bills and instead, to lock in higher yields in longer maturities.

Aside from financial markets, we believe commodities are well-positioned to benefit from an improved economic outlook and a new wave of borrowing at lower short-term interest rates in 2025. We maintain our favorable view of this asset class.

In the alternative investment space, we favor transitioning to strategies poised to benefit from lower short-term interest rates, rising equity prices, and accelerating economic growth.

In our 2025 Outlook, we also look beyond the investment horizon of the next year for tomorrow's opportunities, today. The possibilities we underline are investments in the future expansion and powering of artificial intelligence, which we think will integrate further into the economy and people's daily lives in the years to come.

For more specific guidance across the opportunities we expect next year and beyond, please see our special report: *2025 Outlook: Charting the economy's next chapter*.

Risk Considerations

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. Concentration within certain **sectors**, industries or companies within the economy may present more risks than if a portfolio were broadly diversified over numerous sectors of the economy. This will increase the portfolio's vulnerability to any single economic, political or regulatory development affecting the sector and may result in greater price volatility. **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. **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. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate. **Real assets** are subject to the risks associated with real estate, commodities and other investments and may not be appropriate for all investors. Real estate has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

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, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund 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. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

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PM-05272026-7385564.1.1

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