WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment **July 8, 2026**

Mason Mendez
Global Real Assets Analyst

Last week's S&P 500 Index: +1.8%

Markets look past oil risks and refocus on rates and AI

Key takeaways

- As concerns over Middle East oil disruptions have eased, investors are turning their attention back to inflation, interest rates, and corporate earnings.
- The outlook for equities remains positive, however, high earnings expectations and uncertainties around interest rates could drive near-term market volatility.

Investors have spent much of the year watching geopolitical risks in the Middle East. For now, though, markets appear to be moving past the immediate oil-supply concerns and refocusing on two issues that matter for portfolios: the path of interest rates and whether enthusiasm for artificial intelligence (AI) can continue supporting tech earnings.

Oil prices remain a risk, but with the U.S. benchmark West Texas Intermediate crude back near prewar levels (as of June 30), investors do not appear to view the conflict as a lasting supply shock. That stability has allowed attention to shift back to Federal Reserve (Fed) policy and corporate earnings.

At Kevin Warsh's first policy meeting as Fed chair, the Fed left interest rates unchanged, but investors focused on his emphasis on controlling inflation. For investors, the key point is simple: If inflation is sticky, interest rates may stay higher for longer, which can pressure expensive growth stocks and support income opportunities in bonds.

That uncertainty has made investors more selective, especially in tech. A brief sell-off in the South Korean KOSPI Index in late June added to concerns that markets may have become too optimistic on how quickly companies can turn AI spending into profits. The concern is not that the AI trend is over but that expectations may have moved ahead of near-term earnings reality.

While the tech sector underperformed in June, we believe the long-term AI investment story remains intact. The recent weakness appears more consistent with a market rotation than the start of a broader downturn. As noted in last week's Market Commentary, 6 of the 11 S&P 500 Index sectors posted positive returns in June and roughly 64% of S&P 500 Index companies remained above their 200-day moving averages as of June 30, suggesting market breadth remains reasonably healthy.

We remain constructive on equities, supported by solid earnings growth and our 2026 year-end S&P 500 Index target of 7,800 – 8,000. However, expectations for second-quarter earnings are high, particularly for companies tied to AI, which creates room for volatility if results fall short of expectations.

Additionally, one risk to watch is leverage. Some investors are borrowing more to participate in AI trends and initial public offerings. Borrowing can increase gains when markets rise, but it can also amplify losses. Leverage does not appear extreme today, but it could amplify market volatility.

For investors, the key takeaway is to stay invested through volatility while avoiding overconcentration. We continue to favor Information Technology but prefer a selective approach. Investors concerned about tech valuations may consider balancing exposure with sectors offering more attractive valuations, including Industrials, Materials, Utilities, and Financials. Outside equities, higher bond yields may provide attractive income opportunities while Precious and Industrial Metals can help diversify portfolios if inflation or geopolitical risks reemerge.

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

© 2026 Wells Fargo Investment Institute. All rights reserved.

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. **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. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. 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.

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. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues. 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.

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.

Definitions

South Korean KOSPI Index is South Korea's main stock market index, tracking the market capitalization of all common stocks listed on the Korea Exchange and serving as a key indicator of the country's economic health.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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-01072028-5725614

© 2026 Wells Fargo Investment Institute. All rights reserved.