WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment **August 26, 2026**

Jennifer Timmerman
Global Macro Analyst

Last week's S&P 500 Index: -1.4%

Has the consumer "checked out"?

Key takeaways

- The recent batch of weaker economic reports warrants perspective rather than alarm. While consumer spending may slow in this year's second half, the broader backdrop remains consistent with continued economic growth.
- We believe labor-market stability, upper-income household spending, and the artificial intelligence (AI) investment boom will keep economic growth and corporate earnings on track.

Summer doldrums? There's been no such thing for the macroeconomic backdrop. While investors have focused on geopolitical tensions and policy uncertainty, the more important question may be whether the U.S. consumer is losing momentum.

A contraction in July nonfarm payrolls (combined with prior downward revisions) marked a return to sluggish job growth observed at the turn of this year. July retail sales unexpectedly declined by the most since May 2025. Disappointing earnings reports from several retailers highlighted a cautious consumer prioritizing essential items over discretionary purchases. Elevated gasoline prices tied to the ongoing Middle East conflict only added to consumer fatigue, feeding into an August slump in consumer sentiment.

So, has the U.S. consumer "checked out"? We don't think so. Despite the recent softness, one of the most important supports for consumer spending appears fundamentally stable: the labor market. Weekly initial jobless claims remain historically subdued and recently reached their lowest level in decades. With the "no hire, no fire" environment intact, we believe the labor market will provide a sufficient consumer underpinning. Moreover, some downbeat data should be kept in perspective. July's drop in retail sales likely overstated underlying weakness as several temporary spending boosts had already pulled purchases forward into the second quarter. These included big tax refunds and World Cup-related spending.

Further, downcast consumer sentiment surveys have become a feature of the post-pandemic economy amid affordability concerns, but that has not put a brake on consumer spending this cycle. This is largely because upper-income households drive an increasingly disproportionate share of overall spending. (Recent Federal Reserve data show the top 10% of income earners now account for almost half of spending, up from roughly 35% in the mid-1990s.) Slowing wage growth, a historically low savings rate, elevated gasoline prices, and the high cost of other essentials can leave lower-income families financially strained and more reliant on borrowing to fund purchases. But these same factors can matter much less for more affluent households that benefit from wealth-building gains in stocks and other financial assets. And beyond the consumer, ongoing business investment tied to AI infrastructure has cushioned the overall economy, helping offset any pockets of weakness tied to financial stress among lower-income households.

Bottom line: Recent data suggest the consumer is slowing, not taking a deep dive. We do expect spending growth to moderate in the coming months as temporary tailwinds fade and lower-income budgets remain stretched. However, we believe a stable labor market, continued AI-related investment, and wealth gains among higher-income households should keep the economic expansion on track, potentially driving gains in the stock market.

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** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

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-02242028-5866935