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Investment Institute

Investment Strategy

Weekly guidance from our Investment Strategy Committee **September 14, 2026**

Equities Spotlight

Alex Sagal
Global Equity Analyst

Stocks rise as valuations normalize

In our 2026 Midyear Outlook, we argued that earnings growth, rather than valuation expansion, would likely drive equity returns.[1] That theme has played out and will likely remain an important feature of our outlook. The S&P 500 Index has gained nearly 13% year-to-date, even as its P/E ratio based on 12-month ahead earnings expectations has declined from roughly 22x earnings to approximately 19x (see Chart 1). We believe equity returns can continue even if valuations stay flat or compress modestly, because corporate profits are growing rapidly, driven by artificial-intelligence (AI)-related capital spending, productivity gains, and broad investment in infrastructure, power generation, and compute capacity.

Chart 1. The S&P 500 Index's forward P/E ratio has compressed from 22x to 19x in 2026

Sources: Bloomberg and Wells Fargo Investment Institute. Data from January 1, 2023, through September 8, 2026. Forward P/E (price-to-earnings) ratio is calculated by dividing the current market price of an index or security by the consensus estimate of earnings per share over the next 12 months. An index is unmanaged and cannot be invested in directly. **Past performance is no guarantee of future results.**

While falling valuation multiples are often associated with weak equity markets and deteriorating fundamentals, the recent decline in the S&P 500 Index forward P/E ratio reflects a healthier dynamic: earnings-per-share (EPS) growth has outpaced stock price appreciation. Second-quarter earnings results demonstrated the capacity of corporate profits to overcome a challenging environment that includes the prospect of Federal Reserve (Fed) interest-rate increases, 30-year Treasury yields near multidecade highs, a prolonged conflict with Iran, and several bouts of oil prices bouncing above $100 per barrel. With nearly all S&P 500 Index companies having reported second-quarter results, revenue increased approximately 15%, while headline earnings rose about 50%. Even excluding unusually large nonoperating gains, earnings advanced roughly 32%, the strongest pace since the post-

1 See our report, "2026 Midyear Outlook: Keeping discipline in noisy markets," June 2026.

pandemic rebound in 2021. The S&P 500 Index has now delivered seven consecutive quarters of double-digit earnings growth. If third- and fourth-quarter estimates are realized, earnings will have increased by more than 20% for four consecutive quarters.

This exceptional earnings performance remains central to our constructive equity outlook. However, strong profits do not necessarily imply a high valuation environment. Several structural changes suggest that investors may continue to apply a lower multiple to those earnings, including:

- **Higher interest rates**: Higher short- and long-term interest rates increase the discount rate applied to future corporate earnings, reducing the present value investors are willing to pay for those earnings. Elevated cash yields and bond yields also provide more competitive alternatives to equities, raising the hurdle rate for stock investors. Although interest rates have risen from the unusually low levels that prevailed for much of the past decade, we view this shift largely as a normalization that may nonetheless restrain P/E ratios.

- **Decelerating EPS growth**: We expect earnings to remain strong, but the rate of growth is likely approaching its cyclical peak. We expect profits to continue rising, although at a more measured pace as year-over-year comparisons become harder to outpace. A slower earnings-growth trajectory typically reduces the premium investors are willing to pay for future profits.

- **Higher geopolitical risk**: Ongoing conflicts and uncertainty surrounding global energy supplies raise the potential for renewed commodity-price and supply-chain pressures. Those disruptions can lift inflation expectations, increase corporate costs, and reduce the visibility of future cash flows. Investors generally respond to greater uncertainty by requiring additional compensation for risk, which can weigh on stock market multiples.

- **Credit conditions and rising leverage**: Large technology companies have historically financed investment through substantial internal cash flow and strong balance sheets. As the AI ecosystem expands, however, financing increasingly includes debt, private credit, asset-backed arrangements, and off-balance-sheet structures. A greater reliance on leverage and external financing could increase financial risk and reduce the valuation multiples assigned to mega-cap companies.

- **Capital-intensive growth**: The AI investment cycle is extending beyond computing capacity into memory, networking, cooling, electrical equipment, power generation, and construction. This expansion places greater demands on corporate capital budgets, often well before the associated revenue and cash flow are realized. Investors may therefore require clearer evidence that elevated capital spending can generate durable returns before assigning higher valuation multiples to the businesses.

- **Greater index-level semiconductor and memory exposure**: Semiconductor and memory-related companies now account for approximately 15.5% of the S&P 500 Index, compared with 2.8% a decade ago. These industries offer substantial growth potential, but they also face short product cycles, volatile pricing, significant capital requirements, and historically cyclical operating results. As this exposure has increased, the index has become more sensitive to industries that typically command lower multiples than predictable, capital-light businesses.

Valuation-driven gains may be behind us, and structurally lower P/E ratios may be appropriate in an environment of normalized interest rates, capital-intensive growth, and elevated geopolitical uncertainty. Although we see several reasons why valuation multiples may not revisit the elevated levels of recent years, our outlook for U.S. Large Cap Equities remains positive, as resilient earnings growth may continue to support returns.

Fixed Income

Luis Alvarado
Co-Head of Global Fixed Income Strategy

Yield still matters

We believe current starting yields across a variety of fixed-income asset classes remain attractive relative to 10-year averages. Also, the higher coupons may help cushion against bond price declines in case interest rates move higher. We favor implementing a diversified-income approach utilizing multiple fixed-income sectors.

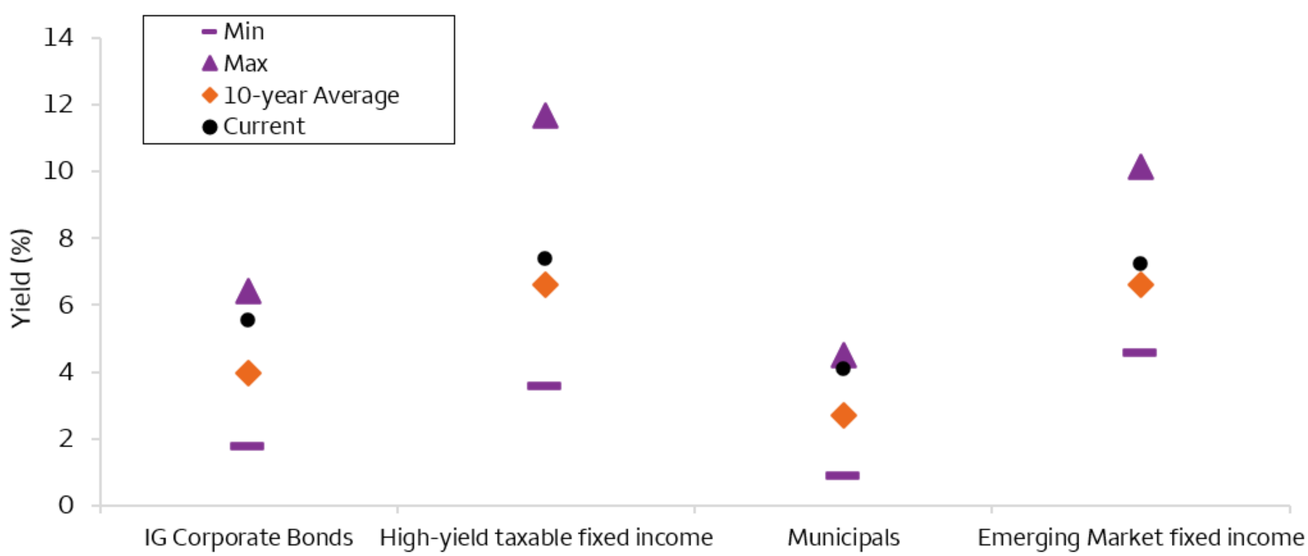
Investment-grade (IG) corporate bonds: High-quality IG corporate bonds continue to offer attractive income opportunities while maintaining relatively strong credit fundamentals. Although corporate credit spreads remain tight by historical standards, all-in yields remain compelling. We favor careful issuer selection and believe short- and intermediate-maturity corporate bonds offer an attractive balance between income generation and interest-rate sensitivity.

IG municipal securities: IG municipal bonds are offering attractive income opportunities. For tax-sensitive investors, tax-equivalent yields continue to compare favorably with many taxable fixed-income alternatives. We favor high-quality municipal issuers supported by strong balance sheets and resilient revenue streams.

High-yield taxable fixed income: High-yield bonds continue to provide attractive income opportunities. While credit spreads remain relatively narrow and reflect limited expectations for economic deterioration, elevated starting yields may help cushion returns should volatility increase. We favor an active and selective approach that emphasizes credit quality and issuer fundamentals.

Emerging-market (EM) fixed income (in U.S. dollars): We believe emerging-market debt is a good alternative for investors seeking additional income beyond traditional U.S. fixed-income sectors. Many EM issuers today maintain stronger balance sheets and more disciplined monetary policies than in past cycles. We continue to favor a selective, actively managed approach given meaningful differences in credit quality, fiscal strength, and geopolitical risk across countries.

Chart 2. Yield comparison



Sources: Bloomberg and Wells Fargo Investment Institute, as of September 8, 2026. Data from September 8, 2016, to September 8, 2026. IG = Investment-grade. Max = maximum. Min = minimum. An index is unmanaged and not available for direct investment. Yields represent past performance and fluctuate with market conditions. Current yields may be higher or lower than those quoted above. **Past performance is no guarantee of future results**. All representative indices are defined on page 8.

Real Assets

Sameer Samana, CFA
Head of Global Equities and Real Assets

Base metals continue their run

Within commodities, energy and precious metals typically attract the most attention, especially during periods of geopolitical uncertainty like the conflict in the Middle East. Yet behind the headlines, base metals have been among the strongest-performing commodity groups. From September 8, 2025, to September 8, 2026, base metals gained 34.3%, driven largely by a growing imbalance between supply and demand (see Chart 3).

Chart 3. Base metals remain in an uptrend

Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from September 8, 2023, through September 8, 2026. BCOMINTR = Bloomberg Industrial Metals Subindex Total Return. SMAVG (50) = 50-day simple moving average. SMAVG (200) = 200-day simple moving average. RSI = relative strength index. An index is unmanaged and cannot be invested in directly. **Past performance is not a guarantee of future results**.

Copper provides a useful example. Demand continues to rise from a wide range of industries, including construction, housing, electrification, and the AI-driven buildout of data centers. Bloomberg estimates copper demand is increasing by roughly 3% annually, while mine production is growing at only about 2% per year. Recycling and scrap metal help bridge some of the gap, but they are not enough to fully offset the shortfall.

The challenge is that bringing new supply online is neither quick nor easy. Expanding production at an existing mine can take years, while developing a new mine often takes decades. At the same time, the rapid growth of AI and data center infrastructure is increasing demand for copper, power systems, and other industrial metals, reinforcing the structural nature of the deficit, in our view.

We believe these supply-demand dynamics extend beyond copper to several other base metals. Recent tariffs have added another layer of support for prices, further strengthening the outlook for the sector. As a result, we remain constructive on base metals and maintain a favorable rating. For investors, periods of market weakness or price pullbacks may provide attractive opportunities to increase exposure within the commodities allocation.

Alternatives

Chao Ma, PhD, CFA, FRM
Global Portfolio and Investment Strategist

Private debt defies broader fundraising slowdown

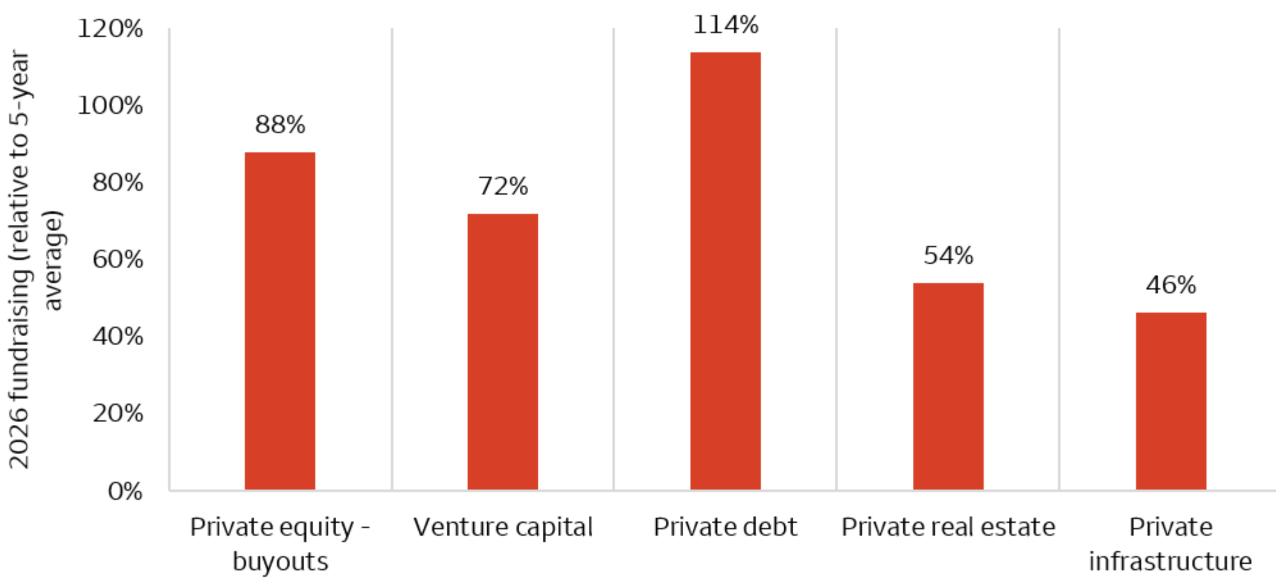
Through the first half of 2026, global private markets raised about $650 billion, putting the industry on track for a fifth consecutive year of fundraising declines.[2] Moreover, fundraising has become increasingly concentrated among larger, more established managers. Funds larger than $1 billion accounted for nearly 80% of capital raised in the first half of 2026, up from about 60% in 2021.[2] This trend likely reflects investors' preference for managers with proven track records as the industry continues to face challenges with exits and capital distributions.

Private debt remains a bright spot, on pace for its second-strongest fundraising year since 1997, while most other private asset classes have experienced subdued fundraising activity (see Chart 4). For private debt, we believe strong cash flow generation and resilience in a higher interest rate environment have continued to support demand, despite softer sentiment toward some evergreen vehicles.

Venture capital fundraising has shown early signs of recovery in the second quarter, driven largely by interest in AI, although the level remains below historical averages. By contrast, private real estate is on pace for its weakest fundraising year since 2012, as elevated interest rates and uneven market conditions across property types continue to weigh on investor demand.[2]

We believe exit and distribution challenges remain a key issue for private markets. As of the end of 2025, nearly 40% of private market assets were held in funds older than seven years, and investors have generally experienced negative net cash flows since 2022.[2] With a large volume of older assets still awaiting exits, we continue to favor secondary strategies which help provide liquidity and return capital to investors while benefiting from strong growth trends across private market segments.

Chart 4. Most private asset classes continued to experience subdued fundraising in 2026



Sources: Pitchbook and Wells Fargo Investment Institute. Data as of June 30, 2026. Data shows quarterly 2026 fundraising relative to 2021-2025 averages. The chart is based on data collected by Pitchbook. No index is used.

Alternative investments, such as hedge funds, private equity, private debt and private real estate funds are not appropriate for all investors and are only open to "accredited" or "qualified" investors within the meaning of U.S. securities laws.

2. Pitchbook, "Global Private Market Fundraising Report," September 3, 2026.

Tactical guidance*

Cash Alternatives and Fixed Income

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	Developed Market Ex-U.S. Fixed Income U.S. Long Term Taxable Fixed Income	Cash Alternatives Emerging Market Fixed Income High Yield Taxable Fixed Income U.S. Intermediate Term Taxable Fixed Income	U.S. Short Term Taxable Fixed Income	

Equities

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Small Cap Equities	Developed Market Ex-U.S. Equities Emerging Market Equities U.S. Mid Cap Equities	U.S. Large Cap Equities	

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Digital Assets Private Real Estate	Commodities Private Infrastructure	

Alternative Investments**

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Hedge Funds—Equity Hedge Hedge Funds—Macro Hedge Funds—Relative Value Private Equity Private Debt	Hedge Funds—Event Driven	

Source: Wells Fargo Investment Institute, September 14, 2026. Please see Wells Fargo Investment Institute's Asset Allocation Strategy Report for more detailed, investable ideas in each asset group.

*Tactical horizon is 6-18 months

**Alternative investments are not appropriate for all investors. They 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. Please see end of report for important definitions and disclosures.

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. **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. **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. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions. Technology and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

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.

Cryptocurrency and other digital assets often involve significant risks and can be highly volatile. Their value may fluctuate substantially, and investors could lose all or a significant portion of their investment. Digital assets may be subject to market, liquidity, regulatory, and operational risks and may be subject to heightened risks of fraud, cyber incidents, and market manipulation. Digital assets may not provide the same regulatory protections as traditional investment products and often are not insured by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC), or any government agency. Investors should carefully consider their investment objectives, risk tolerance, and financial circumstances before investing in cryptocurrency or other digital assets.

Tax-equivalent yield calculations depend on an investor’s applicable tax rate. Interest on municipal securities may be subject to federal alternative minimum tax, and state or local taxes may apply. Tax laws and regulations are subject to change. Investors should consult their tax advisors regarding their individual circumstances

Definitions

Bloomberg Industrial Metals Subindex Total Return measures the performance of futures contracts on industrial metals, including aluminum, copper, nickel, and zinc. The index reflects both price changes and the return generated from rolling futures contracts.

U.S. Investment Grade Corporate Fixed Income. **Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

High Yield Taxable Fixed Income. **Bloomberg U.S. Corporate High-Yield Index** covers the universe of fixed-rate, non-investment-grade debt.

Emerging Market Fixed Income (U.S. dollar). **J.P. Morgan Emerging Markets Bond Index (EMBI Global)** currently covers more than 60 emerging market countries. Included in the EMBI Global are U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

U.S. Municipal Bond. **Bloomberg Municipal Index** is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.

S&P 500 Index consists of 500 leading U.S. companies and is designed to measure the performance of the large-cap segment of the U.S. equity market.

Pitchbook Data – Pitchbook uses a variety of publicly available sources found in targeted online searches including more than 1,000,000 web crawlers using national language processing and machine learning, secondary sources (those authored by someone not directly involved in the deal or fund), news (largest source of information) and other online sources. Quality assurance uses preventive validations, corrective validations, and mutual reviews in an effort to ensure accuracy of data. Data is educational and illustrative purposes only and there are no guarantees as to accuracy of data or content.

An index is unmanaged and not available for direct investment.

General disclosures

Unless otherwise noted, market data, index data, economic statistics, earnings data, and related analytical information referenced throughout this report are sourced from Bloomberg and Wells Fargo Investment Institute, as of September 8, 2026.

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