WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment **August 27, 2025**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: +0.3%

Now what?

Key takeaways

- S&P 500 momentum has clearly been to the upside, but valuation in terms of the price-to-earnings (P/E) ratio is well above the longer-term historical average.
- We still anticipate economic and earnings growth to accelerate as 2026 progresses.

Last week's Federal Reserve (Fed) Symposium has come and gone. Based on the big rally in the major equity indexes and the drop in two-year Treasury yields to close out the week on Friday, Fed Chair Jay Powell said what the financial markets wanted to hear during his keynote speech in the morning. Following the speech, the futures market had priced in a near 100% probability of a quarter-point interest-rate reduction at the Fed's next policy meeting on September 16 – 17, 2025.

But what many investors want to know is how much higher stocks might go. The S&P 500 (SPX) reached a new record high in the wake of Chair Powell's speech. The small-cap Russell 2000 Index surged but still remains nearly 4% below its record high set way back in November 2021. Remember that U.S. small caps as an asset class are typically ultrasensitive to interest rates as these companies generally rely more on credit to go about their daily operations than their larger-cap brethren. We would trim exposure from recently downgraded U.S. Small Cap Equities as we believe the underlying fundamentals do not support current levels and would move those funds toward U.S. Intermediate Term (three to seven year maturity) Taxable Fixed Income.

So, how high can the S&P 500 go? The momentum has clearly been to the upside. However, valuation in terms of the price-to-earnings (P/E) ratio at just over 25x trailing 12-month earnings is well above the longer-term 35-year historical average of 19.5x per Bloomberg data. But trying to call a top in the SPX using valuation alone is not an easy task. This strategist can remember back in March 2000 when valuations were well above the historical average. Just like back then, a new technology was driving gains (the internet then, Artificial Intelligence now) and a relatively small number of large-cap companies were carrying the market higher. The difference now is that the mega-cap names taking the market higher have robust products, revenues, and cash flows along with strong balance sheets. Their underlying earnings fundamentals have been quite good. So good in fact that first- and second-quarter SPX earnings grew more than double the expected rate coming into the reporting season. That wasn't the case 25 years ago.

Our goal has not been to try and determine where a near- or intermediate-term top might be in the S&P 500. We expect increased volatility in the coming months, which could present a buying opportunity for longer-term investors. And while the index is trading close to the midpoint of our target range for the end of this year (6,400), our analysis suggests we could see the SPX trading in the 6,900 – 7,000 range by the end of 2026.

What we want to do now is more of a process of rebalancing and trimming risk where prices have become the most extended and to reallocate into better values. We still anticipate economic and earnings growth to accelerate as 2026 progresses and favor portfolios remaining overweight U.S. Large Cap Equities and U.S. Mid Cap Equities. Our most favored sector is Financials, and we continue to favor Utilities and Information Technology.

Risk considerations

Forecasts are not guaranteed and based on certain assumptions and on 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. **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.

Definitions

An index is unmanaged and not available for direct investment.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

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.

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-02242027-8327169.1.1