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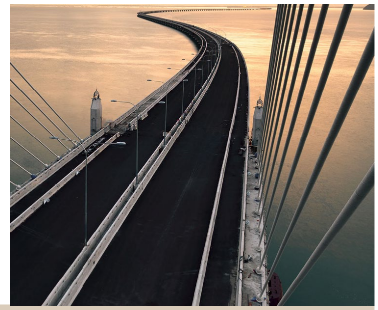


# Investment Strategy

**Weekly guidance from our Investment Strategy Committee** **June 8, 2026**

# Alternatives Spotlight

**Mark Steffen, CFA, CAIA**
Global Alternative Investment Strategist

## The role of alternatives in navigating global tensions

The Iran war has led to a significant shock to global energy and commodity markets. Prior to the war, roughly 20% of the world's energy supply passed through the Strait of Hormuz.[1] The disruption to this vital shipping corridor has pushed energy, as well as many commodity prices higher and led to greater market uncertainty overall. While we expect that a resolution will be reached in the near term, the longer energy prices remain elevated, the larger the economic implications. Higher oil prices are already pushing producer and consumer price inflation higher, as energy costs impact not only the price consumers pay at the pump but also raise the prices for goods and food through higher transportation and production expenses. As a result, interest rates may stay higher for longer, leading to tighter financial conditions. Over time, these pressures may begin to affect business performance and corporate leader confidence, with rising implications for private capital markets.

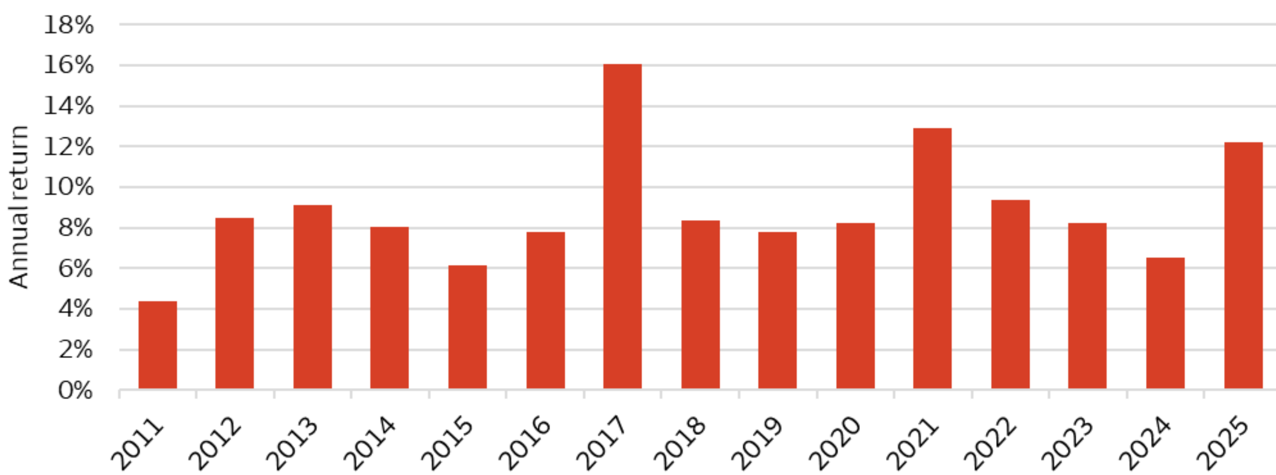
### Alternative strategies: Potential risks and opportunities

Merger and acquisition (M&A) deal activity has been recovering, but prolonged uncertainty and higher financing costs may slow future deals. Companies could delay acquisitions, weighing on private equity exits such as IPOs. Fewer exits would reduce investor distributions and limit capital available for new investments.

Looking ahead, bouts of higher volatility, elevated interest rates, and ongoing economic uncertainty are likely to remain near-term themes. Even as public equity markets look through the uncertainty, qualified investors may want to consider allocations to the following alternative strategies to help build resilience, enhance portfolio diversification, and position for a prolonged higher-for-longer interest rate environment.

Private Infrastructure: The current environment is also accelerating a shift toward energy independence and resilient supply chains. We believe this supports long-term investment opportunities in infrastructure and real assets, particularly in energy, power systems, and grid modernization. These investments can be attractive due to their potential for stable, inflation-linked cash flows and attractive total returns over time (see Chart 1).

**Chart 1. Annual returns for private infrastructure (January 2011 – December 2025)**




Sources: MSCI and Wells Fargo Investment Institute, data as of December 31, 2025. An index is not managed and not available for direct investment. **Past performance is not a guarantee of future results.**

1. Wells Fargo Investment Institute, "Strait talk —The most important questions," May 4, 2026.

Distressed Credit: Higher interest rates can pressure highly leveraged companies, creating opportunities for distressed and special situations strategies focused on strengthening balance sheets and positioning businesses for recovery. A higher-for-longer rate environment may benefit this counter-cyclical approach, as increased financial stress has historically led to stronger returns over time.[2]

Long/Short Equity and Long/Short Credit: We believe flexible investment strategies may help build resilient portfolios, allowing qualified investors to focus on long-term goals. Today, there is a wide gap in performance between individual companies across both equity and credit markets. Chart 2 shows the dispersion during the past 12 months of the companies in the S&P 500 Index, highlighting the trend of rising divergences in the performance of the various companies, or dispersion. This creates potential opportunities for strategies that rely on identifying strong performers ("long" positions) while potentially benefiting from weaker ones ("short" positions). We expect a trend where company fundamentals play a large role in returns to continue.

**Chart 2. Historical performance dispersion between companies in the S&P 500 Index**


Sources: Bloomberg, data as of June 2, 2026. Daily index values from June 1, 2025, through May 31, 2026. An index is not managed and not available for direct investment. **Past performance is not a guarantee of future results**. The S&P 500 30-Day Realized Dispersion Index measures the historical dispersion of the S&P 500 (Total Return) over using the 30-day returns and adjusted closing weights of each constituent in the S&P 500, along with the 30-day return of the S&P 500 itself.

As with any investment, alternative strategies involve a significant degree of risk, and there can be no assurance that the strategy's objectives will be achieved or that there will not be a loss of capital. Alternative investments involve many unique risks, including illiquidity, operational complexity, regulatory and political risks, leverage risk, and valuation risks. Investors should consider these and other risks specific to each strategy prior to making an investment.

In the short term, the ongoing geopolitical conflict may present challenges. Over the longer term, however, we believe it may also create compelling opportunities for well-diversified portfolios and disciplined investors.

**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. Institutional Investor: Market Volatility May Boost Distressed Credit Opportunities. May 12, 2025.

# Equities

**Douglas Beath**
Global Equity Strategist

**Awsaf Tamjid Arko**
Global Equity Strategy Associate

## Potential impact of mega-IPOs

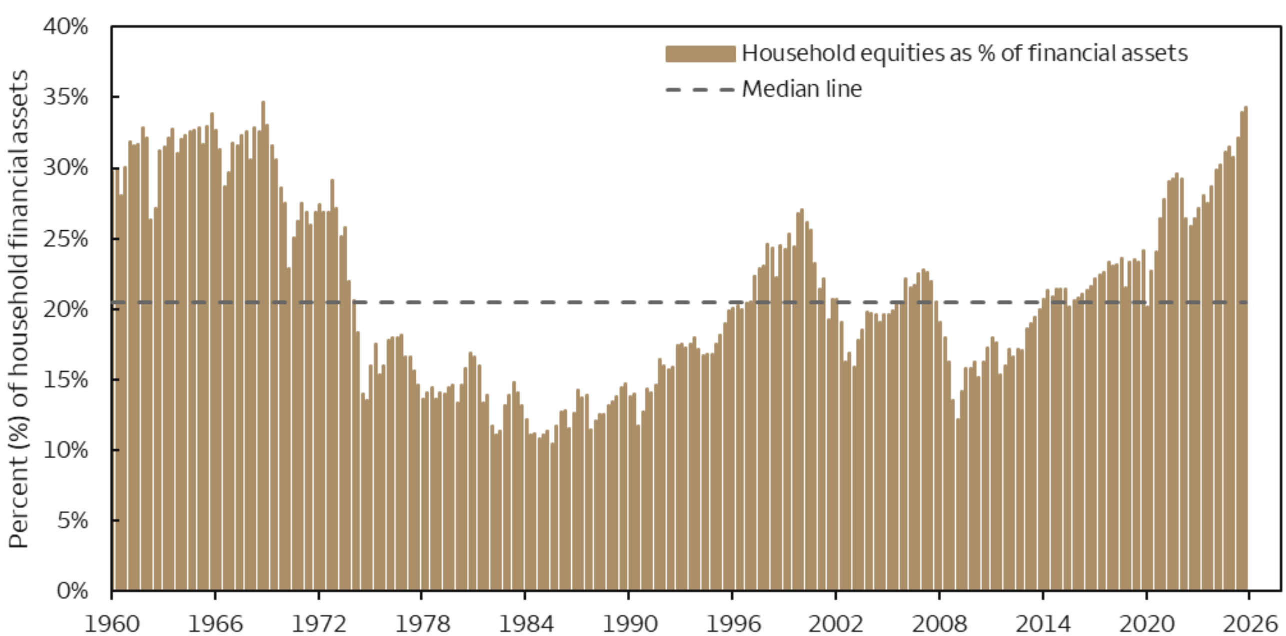
A wave of IPOs expected this year could be the largest capital-raising cycle on record, and totals about 0.5% of U.S. equity market capitalization.[3] The scale underscores both the opportunity and the broader equity market implications — particularly for technology and AI.

Mega-cap IPOs may force index providers to adjust methodologies, requiring index funds and exchange-traded funds (ETFs) to add new constituents. This can trigger buying pressure and temporarily drive up IPO valuations. It could also drain liquidity from other areas of the market, and increase concentration within major indexes. Finally, while a successful IPO can lift investor confidence and extend growth rallies, outsized post-IPO premiums may signal speculative excess, especially as Reuters reports that all three prospective issuers are still unprofitable.[4]

History indicates that large IPO issuance occurs during periods of strong equity market sentiment, but the added equity supply can cause some indigestion. Household equity exposure already sits close to an all-time high, which suggests they may sell existing holdings to fund these new positions (Chart 3). Combined with the ongoing geopolitical tensions and the upcoming midterm elections, it could be one more reason for markets to display greater choppiness in the second half.

We remain favorable on the AI theme and the Information Technology sector but would not chase this run up as the sector has gained 37% (as of May 29, 2026) since April compared to 17% for the S&P 500 Index. We suggest the consideration of rebalancing into ancillary sectors with more attractive valuations, such as Financials, Industrials, and Utilities.

**Chart 3. Equities as a percentage of household financial assets at a recent high**




Sources: Federal Reserve Board, U.S. Commerce Department, and Wells Fargo Investment Institute. Quarterly data as of December 31, 2025. Percentage measured in billions U.S. dollars.

3. NDR. Based on estimate of IPOs and 73 trillion market cap.
4. Reuters: Biggest IPO wave in history promises $3 trillion in value – with no profits. April 23, 2026.

# Fixed Income

**Luis Alvarado**
Co-Head of Global Fixed Income Strategy

## Risks and opportunities during rising-rate environments

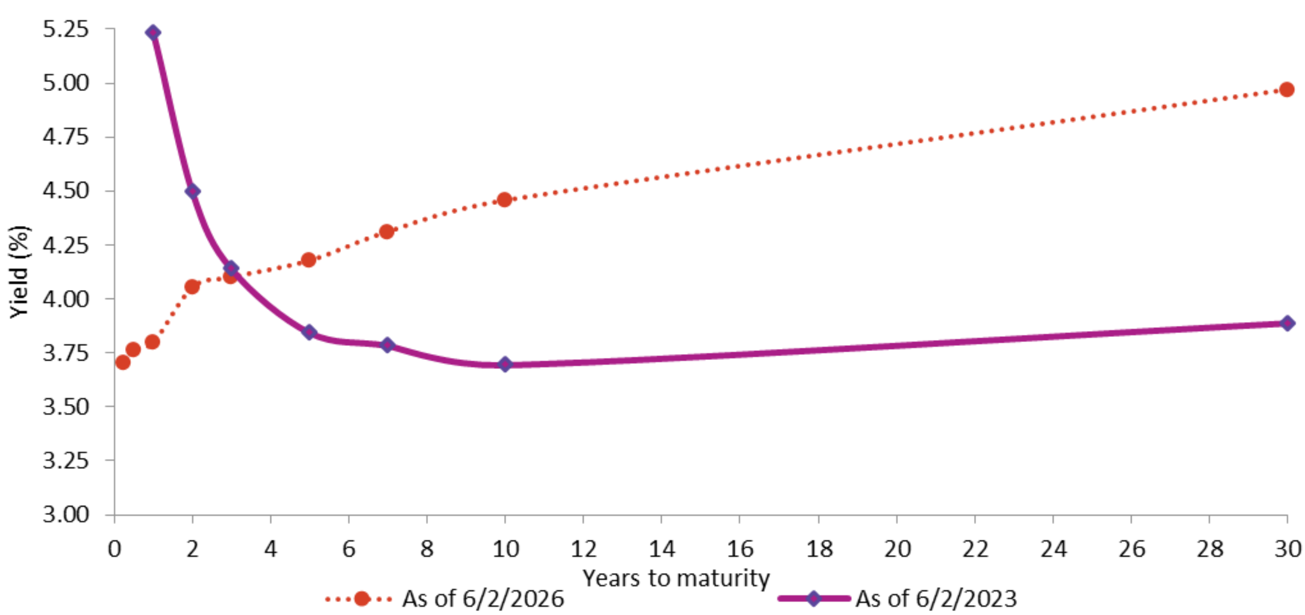
Periods of rising interest rates tend to create a more challenging and uneven backdrop for investors, particularly across fixed-income markets and other rate-sensitive sectors, like real estate. The most direct risk comes from the inverse mathematical relationship between interest rates and bond prices — when rates rise, bond values fall, with longer-duration securities typically experiencing the largest declines (all else equal). This dynamic can lead to principal losses for investors who need to sell bonds before maturity, highlighting the importance of liquidity and duration management.

Equity markets face a more nuanced risk, as outcomes depend on the underlying drivers of rate increases. If rates rise alongside stronger economic growth and corporate earnings, cyclical sectors, such as Financials, Industrials, and Information Technology, have historically held up better. However, when the Federal Reserve (Fed) needs to rein in inflation and raise policy rates, while long-term rates remain flat or decline, more defensive sectors have tended to outperform.

Higher interest rates also ripple through consumer behavior. Increased costs for credit cards, auto loans, and mortgages can weigh on spending and raise delinquency risks, particularly in the latter stages of the economic cycle. In our view, rising-rate environments tend to widen performance dispersion across asset classes. While some assets, such as equities or commodities, can perform well, fixed income often lags — reinforcing the need for diversification across sectors, maturities, and asset classes.

However, higher interest rates also improve the income potential for investors. Intermediate and long-term bond yields are now at higher levels than they were three years ago (see Chart 4), providing a stronger source of cash flow and a cushion against volatility. Over time, this income component becomes a key driver of total return, reinforcing the role of fixed income as a more reliable income generator in portfolios.

**Chart 4. U.S. Treasury yield curve: Now and then**




Sources: Bloomberg and Wells Fargo Investment Institute, as of June 2, 2026. Shape of the U.S. Treasury yield curve at given dates. **Past performance is not a guarantee of future results**.

# Real Assets

**Sameer Samana, CFA**
Head of Global Equities and Real Assets

## Gold at a crossroads

Gold prices began the year with a strong uptrend, rising 25.42% from December 31, 2025, to January 28, 2026. This rally was driven by retail investors continuing to chase the positive momentum established in 2025, alongside steady buying by central banks increasing their long-term gold reserves as part of diversification strategies in a highly uncertain world.

Since late January, however, the trend has reversed, with gold declining by roughly 17% through June 1, 2026. A significant portion of this pullback followed the U.S. attack on Iran on February 28, which introduced broader market uncertainty and volatility. The initial wave of selling came from retail investors taking profits after the sharp run-up, reflected in a noticeable drop in assets held in gold ETFs. At the same time, central banks contributed to the downward pressure by trimming their gold holdings to meet rising fiscal demands, including funding energy subsidies linked to higher conflict-induced oil prices.

From a technical perspective, gold is currently trading between its 200-day moving average ($4,412) and its 50-day moving average ($4,630), both of which are closely watched by investors. A sustained move below the 200-day average could signal further weakness, while a rebound above the 50-day average may indicate stabilization and renewed investor interest.

Despite near-term uncertainty, the longer-term outlook remains constructive. Wells Fargo Investment Institute's 2026 year-end target of $5,800–$6,000 per troy ounce reflects our expectations that central banks will continue accumulating gold amid persistent geopolitical uncertainty, elevated inflation, and higher interest rates. We believe price pullbacks, like the recent one, may represent opportunities for disciplined intermediate- to long-term investors to add exposure at the expense of forced sellers.

**Chart 5. Gold sits between key moving averages**


Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from June 2, 2023, through June 2, 2026. XAU = Gold Spot price. SMAVG (50) = 50-day simple moving average. SMAVG (200) = 200-day simple moving average. RSI = relative strength index. An index is not managed and not available for direct investment. **Past performance is not a guarantee of future results**.

# Tactical guidance*

### Cash Alternatives and Fixed Income

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

### Equities

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

### Real Assets

| Most Unfavorable | Unfavorable | Neutral | Favorable | Most Favorable |
|---|---|---|---|---|
| | | Commodities<br><br>Private Real Estate | Private Infrastructure | |

### Alternative Investments**

| Most Unfavorable | Unfavorable | Neutral | Favorable | Most Favorable |
|---|---|---|---|---|
| | | Hedge Funds—Equity Hedge<br><br>Hedge Funds—Macro<br><br>Hedge Funds—Relative Value<br><br>Private Equity<br><br>Private Debt | Hedge Funds—Event Driven | |

Source: Wells Fargo Investment Institute, June 8, 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

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

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. 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. 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. Investments in **gold and gold-related investments** tend to be more volatile than investments in traditional equity or debt securities. Such investments increase their vulnerability to international economic, monetary and political developments. **Cash alternatives** typically offer lower rates of return than longer-term equity or fixed-income securities and provide a level of liquidity and price stability generally not available to these investments. Some examples of cash alternatives include: Bank certificates of deposit; bank money market accounts; bankers' acceptances, federal agency short-term securities, money market mutual funds, Treasury bills, ultra-short bond mutual funds or exchange-traded funds and variable rate demand notes. Each type of cash alternatives has advantages and disadvantages which should be discussed with your financial advisor before investing.

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. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. 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. **Real estate** investments have special risks, including possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions. 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.

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.

#### Definitions

Burgiss Infrastructure Index includes funds that invest specifically in infrastructure, including roads, canals, airports, power lines, etc. This index is built by calculating the change in Net Asset Value of active funds in each quarter, plus/minus aggregate cash flows for the cohort of funds included.

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

The S&P 500 30-Day Realized Dispersion Index measures the historical dispersion of the S&P 500 (Total Return) Index using the 30-day returns and adjusted closing weights of each constituent in the S&P 500, along with the 30-day return of the S&P 500 itself.

An index is unmanaged and not available for direct investment.

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