

# Investment Strategy

**Weekly guidance from our Investment Strategy Committee** **June 29, 2026**

## **Fixed Income Spotlight: 2026 half-time report for fixed income..... 2**

- We believe the Federal Reserve (Fed) is likely to keep interest rates steady for now, but long-term rates may continue to rise. That could create price pressure for longer-term bonds.
- We prefer intermediate-term, investment-grade bonds because they can provide income while limiting some interest-rate risk. We still believe stocks may offer stronger growth potential than bonds.

## **Equities: Regime change at the Fed rattles markets..... 4**

- Markets reacted to Kevin Warsh’s first Fed meeting as Chair with lower equity prices and higher yields across the curve, signaling expectations for a more restrictive policy stance.
- While the investor focus shifting from geopolitical risks to the implications of higher yields may lead to increased volatility, we would view that as an opportunity to add to U.S. large- and mid-cap equities, along with the Financials, Materials, Industrials, Utilities, and Information Technology sectors.

## **Real Assets: Commodities sell-off presents an opportunity..... 5**

- After a strong start in 2026, commodities have pulled back sharply over the past few weeks.
- We believe the weakness makes this an opportune time to rebalance into commodities; we continue to favor precious and base metals over energy.

## **Alternatives: Rising dispersion may support long/short equity ..... 6**

- Long/short equity strategies seek to generate returns by investing in stocks expected to rise and shorting stocks expected to fall, allowing managers to capitalize on both market winners and losers.
- Rising market dispersion may create a more attractive opportunity set for long/short managers, although leverage, liquidity, and short-selling risks remain important considerations.

## **Current tactical guidance..... 7**

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

# Fixed Income Spotlight

**Tony Miano, CFA, CAIA**

Global Fixed Income Analyst

## 2026 half-time report for fixed income

Bond investors have faced a choppy first half of 2026. The conflict with Iran and changing views on the economy have caused interest rates and credit markets to move quickly. Most bond sectors have still produced positive returns, we think this is mainly because investors are earning income from the bonds they own. Even so, bonds have generally trailed stocks so far this year.

### Inflation keeps the Fed cautious

Investor expectations for interest rates have changed meaningfully this year. At the start of 2026, many investors expected the Fed to keep cutting rates. But higher inflation, partly tied to higher energy prices from the Iran conflict, has pushed markets toward expecting the Fed to hold rates steady or even raise them. After the June Fed meeting, new Chair Kevin Warsh emphasized that the Fed remains focused on bringing inflation back to its 2% goal. Our view is that the Fed is more likely to hold rates steady than raise them, even with inflation still a concern.

**Chart 1. Evolution of market pricing of Fed rate cuts in 2026**



Source: Bloomberg, as of June 22, 2026. Market pricing of 2026 rate movements as determined by Fed Funds Futures. A negative value reflects expected rate cuts and a positive number reflects rate hikes.

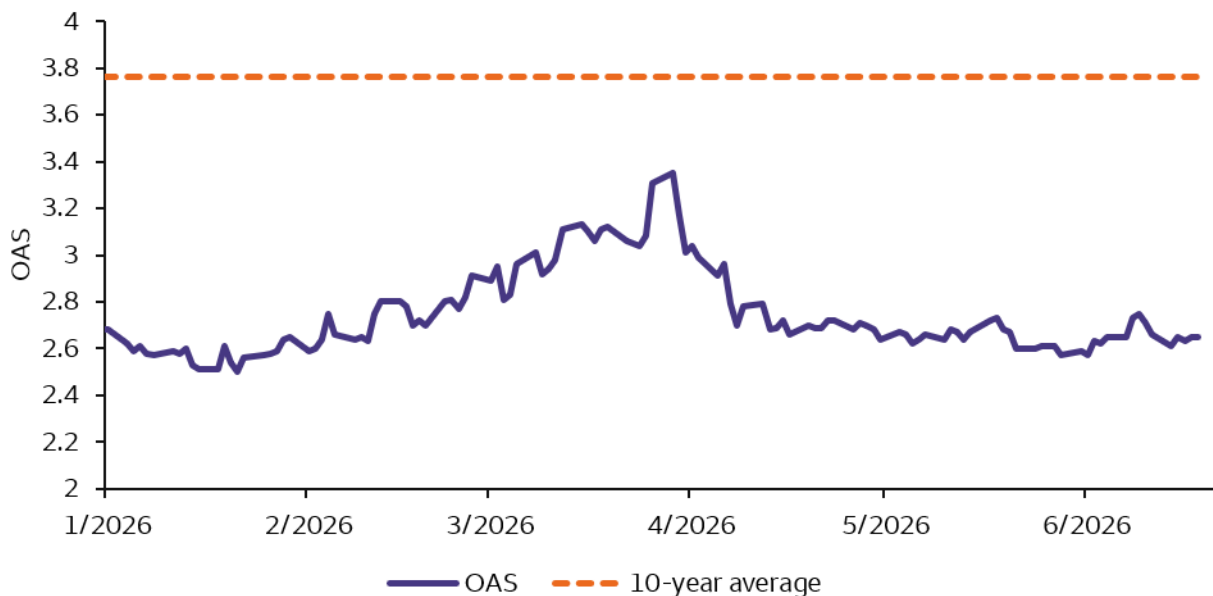
Inflation has remained stubbornly high this year, but we see some relief, as oil flows normalize while the Strait of Hormuz gradually reopens. If inflation eases in the second half of the year, the Fed may have room to stay on hold rather than raise rates. Still, it seems that markets continue to price in some chance of rate hikes. The path will likely depend on whether inflation cools and whether geopolitical tensions stay contained.

Several forces have pushed long-term bond yields higher, including inflation concerns, solid economic growth, and worries about the federal budget deficit. We have been unfavorable on taxable U.S. long-term bonds since early 2025 because they are more sensitive to rising rates. The 10-year Treasury yield has moved more than 30 basis points (bps; one-hundredth of a percentage point) higher since the start of 2026 and is nearly 60 bps above its pre-war low. When yields rise, bond prices fall, and the effect is usually largest for longer-term bonds.

### Credit worries rose with oil prices, then eased

Corporate bond investors are still demanding only a modest extra yield to own corporate bonds instead of U.S. government bonds. That extra yield is known as a credit option-adjusted spread (OAS), as shown in chart 2, and it is one way to measure concern about corporate credit risk. Spreads widened briefly when oil prices rose earlier this year, showing that investors became more cautious. However, that move did not last, and spreads quickly moved lower again.

**Chart 2. Transient credit impacts of the Iran War**



Sources: Bloomberg and Wells Fargo Investment Institute, as of June 22, 2026. The 10-year average of high-yield option-adjusted spreads is 3.76. Option-adjusted spread (OAS) is a measure of credit risk and represents the additional yield provided by a bond over a Treasury bond with a similar maturity.

Should oil prices continue to normalize into year-end 2026 and 2027, we expect limited disruption in corporate bond markets. Corporate profits have remained strong even with the Fed keeping rates steady. Short-term setbacks are still possible, especially if policy uncertainty rises around the midterm election. We believe investors who have too little credit exposure may consider using market pullbacks as an opportunity to add selectively. We are favorable on higher-quality areas of fixed income, including investment-grade corporate bonds and securitized bonds, because they offer a mix of quality and income.

Across asset classes, we continue to emphasize quality. Budget-deficit concerns, continued Treasury borrowing, economic growth, and policy uncertainty could keep upward pressure on yields. Today's bond income can help cushion some of the price volatility that comes with changing interest rates, but investors should avoid reaching too far for yield. In our view, the better approach is to focus on higher-quality bonds that can provide steady income without taking on unnecessary risk.

# Equities

**Douglas Beath**

Global Equity Strategist

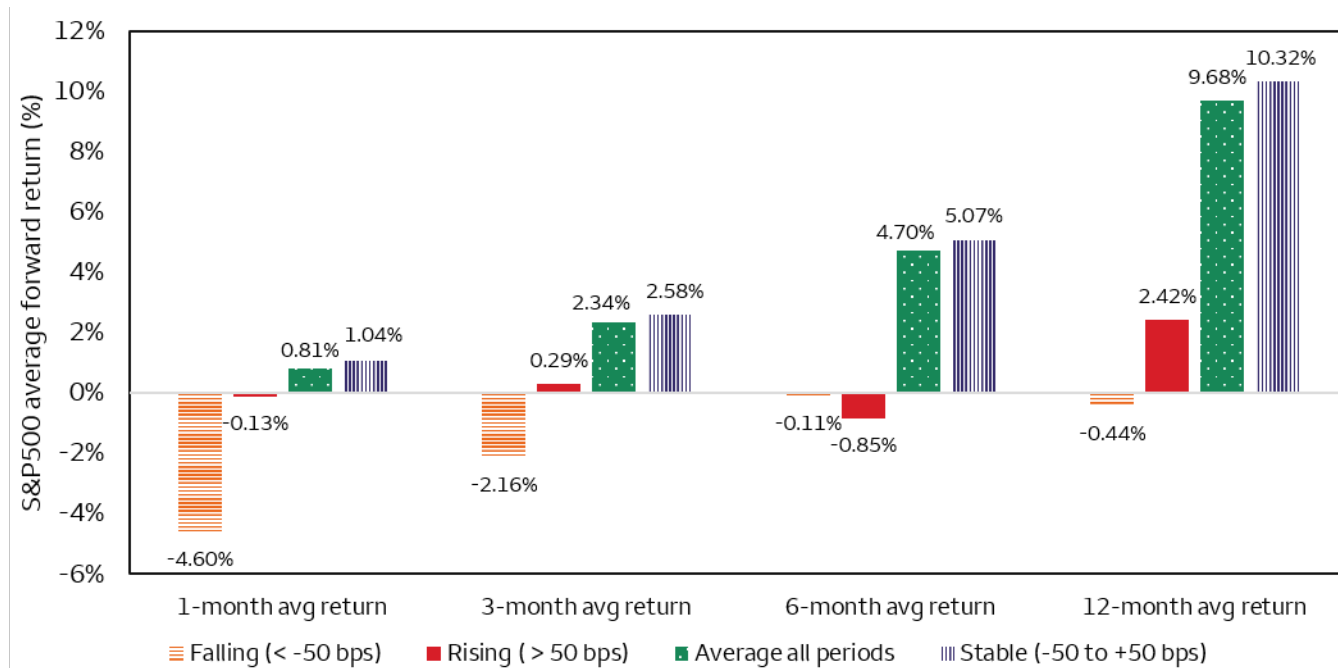
## Regime change at the Fed rattles markets

Kevin Warsh’s first Fed meeting as Chair featured an updated Summary of Economic Projections, or “dot plot,” alongside commentary that markets interpreted as slightly hawkish, that is, biased toward rate hikes instead of cuts. The immediate reaction was a decline in equity prices and a rise in yields across the curve, reflecting a shift in expectations toward a more restrictive policy stance.

Since then, equities have rebounded and long-term rates have stabilized. However, the 2-year Treasury yield — a key measure of near-term Fed policy expectations — has continued to edge higher, even inflation expectations have trended lower with the drop in West Texas Intermediate crude oil prices so far in June. This divergence underscores a disconnect between easing commodity-driven inflation pressures and firming expectations for monetary policy.

Historically, equity markets perform best when the 2-year yield remains stable (see Chart 3). Periods of sharp increases in yields tend to signal tighter financial conditions and valuation pressure, while rapid declines often coincide with rising recession risks. Both scenarios can weigh on equity performance.

**Chart 3. Stability in rates supports consistent equity gains**



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from January 14, 1991, through June 19, 2026. 2-year Treasury yield changes are based on a one month rate of change. Bps = basis points. **Past performance does not guarantee future results.**

Our base case assumes a gradual reopening of the Strait of Hormuz, supporting normalized oil flows and lower refined product prices. Such an environment would likely ease inflation concerns, allowing the Fed to remain on hold. In turn, this should help stabilize the 2-year yield at lower levels and support improved equity returns, consistent with our S&P 500 Index targets for 2026 and 2027.

While the investor focus shifting from geopolitical risks to the implications of higher yields may lead to increased volatility over the next three to six months, we would view that as an opportunity to add to U.S. large- and mid-cap equities, along with the Financials, Materials, Industrials, Utilities, and Information Technology sectors.

# Real Assets

**Sameer Samana, CFA**

Head of Global Equities and Real Assets

## Commodities sell-off presents an opportunity

Commodities started 2026 on a strong note, with the Bloomberg Commodity Total Return Index (BCOMTR) rising 32.31% from December 31, 2025, to May 18, 2026. Since May 18, 2026, the BCOMTR has fallen 11.70% through June 22, 2026. Both the sharp advance and subsequent decline were driven largely by oil prices, which reacted to developments surrounding the Iran War, though other commodity sectors broadly participated in the move.

This volatility highlights how quickly sentiment can shift in commodity markets, particularly when macroeconomic uncertainty is elevated and geopolitical developments unfold rapidly. Investors have moved swiftly between risk-on and risk-off positioning as headlines evolved, amplifying price swings across sectors. While energy has been the primary driver of performance since the war started on February 28, 2026 (to June 22, 2026), industrial metals have shown resilience, supported by structural demand tied to artificial intelligence (AI)-related infrastructure spending and electrification trends.

Precious metals have been particularly hard hit in the recent selloff, reflecting changing expectations around interest rates and the U.S. dollar. However, over the long run, we think they should continue to benefit from their role as central bank reserve assets, an inflation hedge, and a stabilizing component in diversified portfolios. After previously cautioning that commodities appeared overextended, the recent pullback now seems excessive given lingering geopolitical and economic risks. Our guidance remains neutral, favoring full allocation, with a preference for precious and industrial metals over energy.

Chart 4 shows the BCOMTR Index (323) is in an uptrend, with the 50-day moving average (347) now trading above the 200-day moving average (303). It should find support at the 200-day moving average (303), and resistance sits at the 50-day moving average (347).

**Chart 4. Commodities pulling back within an uptrend**



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from June 22, 2023, through June 22, 2026. BCOMTR = Bloomberg Commodity Index Total Return. SMAVG (50) = 50-day simple moving average. SMAVG (200) = 200-day simple moving average. RSI = relative strength index. Technical analysis is based on the study of historical price movements and past trend patterns. There is no assurance that these movements or trends can or will be duplicated in the future. **Past performance does not guarantee future results.**

# Alternatives

**Mark Steffen, CFA, CAIA**

Global Alternative Investment Strategist

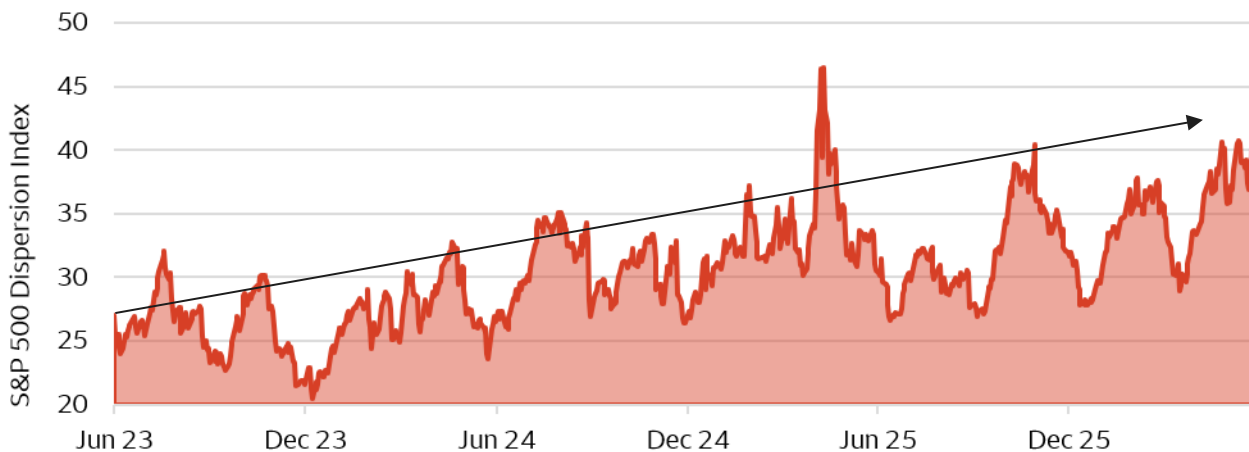
## Rising dispersion may support long/short equity

Long/short equity strategies invest in both stocks expected to rise in value (with “long” positions) and stocks expected to decline (with “short” positions). In a short position, a manager borrows and sells a stock with the intention of buying it back later at a lower price. This approach allows managers to seek returns from both outperforming and underperforming companies.

The effectiveness of long/short investing depends largely on a manager’s ability to identify winners and losers based on company fundamentals. These strategies can struggle when most stocks move in the same direction or when weaker companies outperform stronger businesses. However, they often benefit when investors become more selective and stock performance is driven by company-specific factors rather than broad market trends.

One of the most important drivers of opportunity for long/short managers is market dispersion, or the degree to which individual stock returns differ from one another. Higher dispersion creates a wider gap between market leaders and laggards, increasing opportunities to generate value through stock selection on both the long and short side. Dispersion has been trending higher since late 2023 and recently reached levels approaching those observed following the spring 2025 tariff announcements (see Chart 5). A key contributor has been the “higher-for-longer” interest-rate environment, which generally affects companies unevenly based on factors, such as debt levels, earnings quality, and financial strength.

**Chart 5. Equity market dispersion trending higher in recent years**



Source: Bloomberg, data as of June 2, 2026. Daily index value from June 1, 2023, through May 31, 2026. Data as measured by the Chicago Board Options Exchange (CBOE) S&P 500 Index Dispersion Index.

We believe today’s market backdrop may be increasingly supportive of long/short equity strategies. Despite positive equity returns this year, elevated valuations<sup>1</sup> and increased market volatility<sup>2</sup> may make long/short strategies an attractive option for investors seeking to balance upside participation with enhanced risk management. Yet, long/short equity strategies can face significant risks from leverage, liquidity constraints, and theoretically unlimited losses if the price of a shorted security rises substantially.

**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.**

1. As measured by price/earnings ratio relative to historical average over past 90 years.

2. As measured by the VIX index, a financial benchmark designed to be an up-to-the-minute market estimate of the expected volatility of the S&P 500 Index and is calculated by using the midpoint of real-time S&P 500 Index option bid/ask quotes.

# Tactical guidance\*

## Cash Alternatives and Fixed Income

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Long Term Taxable Fixed Income U.S. Short Term Taxable Fixed Income	Cash Alternatives Developed Market Ex-U.S. Fixed Income Emerging Market Fixed Income 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 Emerging Market Equities	U.S. Large Cap Equities U.S. Mid Cap Equities	

## Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Commodities Private Real Estate	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, June 29, 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

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. **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 **gold, silver or other precious and specialty metals** involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry. 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.

In addition to the risks associated with investments in debt securities, investments in **securitized assets**, such as mortgage-backed and asset-backed securities, are subject to prepayment, extension, and call risks. Changes in prepayment rates may significantly affect yield, average life, and expected maturity. Prepayment risk refers to the possibility that underlying borrowers repay principal earlier than expected, particularly in declining interest rate environments. Extension risk is the risk that rising interest rates will slow the rate at which underlying mortgages or loans are prepaid, thereby extending the duration of the securities. Call risk is the risk that, if a security is called prior to maturity, comparable investments with similar yields may not be available for reinvestment. These risks may be more pronounced for securities with longer maturities or durations.

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. 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. 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

**Bloomberg Commodity Total Return Index** reflects the returns that are potentially available through an unleveraged investment in the futures contracts on 19 physical commodities comprising the Index plus the rate of interest that could be earned on cash collateral invested in specified Treasury Bills. The Index is a rolling index rebalancing annually.

**Chicago Board Options Exchange (CBOE) S&P 500 Dispersion Index (DSPX)** measures the expected dispersion in the S&P 500 over the next 30 calendar days, as calculated from the prices of S&P 500 index options and the prices of single stock options of selected S&P 500 constituents, using a modified version of the volatility index (VIX) methodology. The dispersion index is a forward-looking implied measure. The index may provide an indication of the market's perception of the near-

term opportunity set for diversification or, equivalently, as an indication of the market's perception of the near-term intensity of idiosyncratic risk in the S&P 500's constituents.

**CBOE Volatility Index (VIX)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

**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.

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