

Investment Strategy

Weekly guidance from our Investment Strategy Committee **July 6, 2026**

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- FactSet consensus estimates suggest that capital expenditures (capex) from the leading companies investing in data center construction will approach \$1.0 trillion, or nearly 3% of U.S. GDP, next year.
- This trend continues to drive significant earnings growth opportunities for the Industrials sector. We recommend a balanced approach, holding beneficiaries such as Machinery, as well as more stable areas such as Aerospace & Defense.

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- Property tax cuts may benefit homeowners but could weaken local government finances, especially in areas with lower home values and fewer other revenue sources.
- Municipal bond investors may want to diversify toward sectors less tied to property taxes while monitoring how Florida replaces lost revenue.

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- We are favorable on the Health Care REITs (real estate investment trust) sub-sector of the Real Estate equity sector, with a focus on senior-housing exposure.
- A supportive supply-demand backdrop underlies our favorable view, as the population aged 80 and older is expected to grow by nearly 28% between 2025 and 2030 while senior-housing supply growth has been subdued in recent years and remains sluggish.

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- Transaction activity in the small- and mid-buyout market has remained solid into 2026, potentially reflecting continued investor interest.
- We maintain a favorable outlook on the small/mid buyout strategy, supported by several structural factors, including relatively attractive entry valuations, lower reliance on debt financing, and the broad, diverse opportunity set.

Current tactical guidance 7

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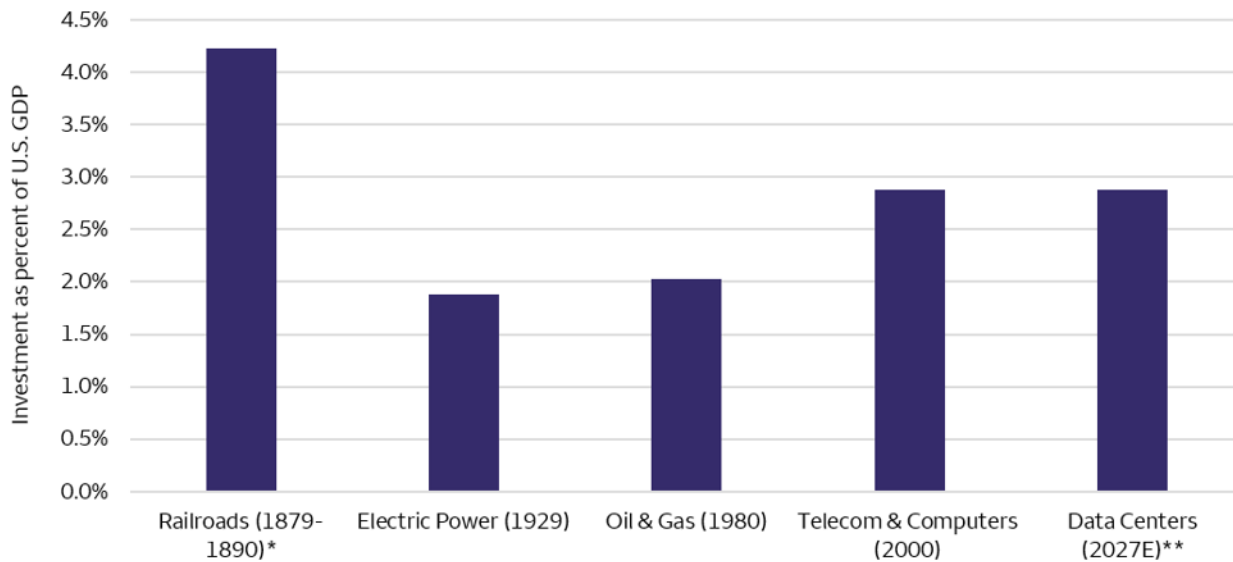
Equities Spotlight

Lawrence Pfeffer, CFA
Equity Sector Analyst

Back to the future: Historic capital spending

To frame the unprecedented scale of today’s artificial intelligence (AI) capital expenditure (capex) wave, we look both backward and forward — drawing on a 1985 cultural reference, a chart beginning in 1984, and another extending into the nineteenth century — to place the current investment cycle in its proper historical context. We expect the AI-capex wave to continue to build into 2027. FactSet consensus estimates suggest that capex from the leading companies investing in data center construction will approach \$1.0 trillion, or nearly 3% of U.S. gross domestic product (GDP), next year. Having traced the historical context, we present key comparisons in the chart below. The central theme is clear: as the U.S. approaches its 250th birthday, it is experiencing one of the largest capital spending booms in its history.

Chart 1. Capex concentration comparisons (investment as percentage of U.S. GDP)



Sources: Cain, Fishlow, Balke & Gordon, Ulmer, Kuznets, American Petroleum Institute, Department of Energy, National Bureau of Economic Research, Bureau of Economic Analysis, FactSet, Company filings, and Wells Fargo Investment Institute, data as of June 26, 2026. GDP = gross domestic product. E = estimate.

*Railroads use the average of 1879-1890 in acknowledgment of relative data quality and inflation adjustment complexity.

**Data Centers represents FactSet consensus estimates for the seven largest hyperscalers and the current annualized run-rate for the eighth largest.

This capex spending meanwhile continues to drive strong earnings growth across areas of the equity market that are levered to business investment. Using the S&P 500 Capital Goods industry¹ as an example, FactSet consensus estimates that the median company is expected to see earnings growth of 31% from 2025 to 2027. For those

1. S&P 500, the Capital Goods industry is a major Industry Group within the Industrials Sector, defined by the Global Industry Classification Standard (GICS). It consists of companies that manufacture and distribute industrial physical assets used to produce other goods or provide services.

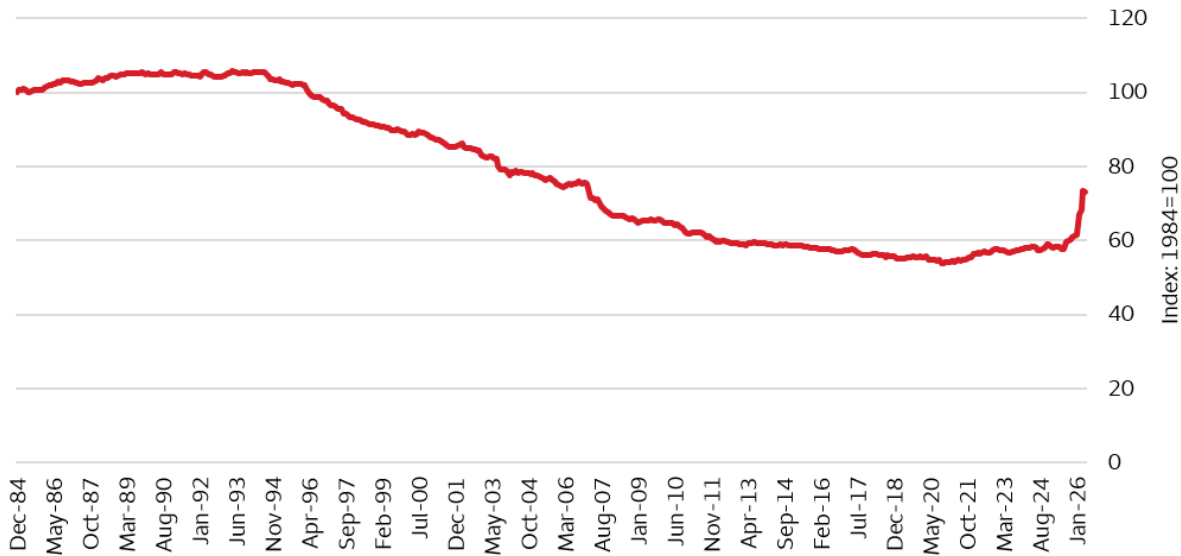
companies that have disclosed greater than 10% of revenue derived from data center or power generation markets, this number rises to 55%.

Visibility into these trends remains strong. Scanning across Industrials and Information Technology, backlogs currently extend quite far. On the shorter end of the horizon, we believe backlog coverage in portions of electrical equipment, semiconductors, and heating, ventilating, and air-conditioning (HVAC) already extends into 2027. Certain areas now face multi-year delivery timelines, with diesel generators and gas turbines most recently being quoted for delivery in 2028 and 2030, respectively. We also believe a growing percentage of components are being purchased under multi-year contractual frameworks.

What impact is this having? We are now seeing significant second-order capex growth. Leading players in large engines, gas turbines, electrical equipment, and semiconductors have all announced significant capital expansion plans or made acquisitions to expand product portfolios. This, in turn, supports incremental demand for the broader industrial economy, providing positive momentum for the cycle more broadly even during periods of volatility, such as the Iran war.

This strength in demand is being reflected in price increases for the components that feed into this vertical. Semiconductor prices, which declined steadily from 1994 through 2020, before increasing modestly in the wake of pandemic-induced supply-chain disruptions, have now risen 20% over the last six months according to the U.S. Census Bureau (see Chart 2).

Chart 2. Semiconductor producer price index



Sources: U.S. Census Bureau and Wells Fargo Investment Institute, data as of June 26, 2026. Semiconductor Producer Price Index (PPI) is a specialized economic indicator that measures the average change in selling prices received by domestic semiconductor manufacturers for their output. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

What to make of it? We believe the key takeaway is that these dynamics provide the backdrop for strong nominal earnings growth for the Industrials sector over the near and intermediate term. We see Electrical Equipment and Machinery as sub-industries well-positioned to benefit from the ongoing buildout. Importantly, many of the underlying companies have diverse businesses and strong quality characteristics. We would also reiterate our favorable view on Aerospace & Defense. While this area may have limited connection to the AI-capex wave, we believe it may serve as an important complement within a portfolio for some investors. Even though the future has not yet been written, a balanced approach to investing is unlikely to become a relic of the past.

Fixed Income

Jon North

Municipal Bond Analyst

Florida voters could reduce property taxes statewide

Florida lawmakers approved a proposal (HJR 1F) that will go to voters in November 2026. If passed, it would exempt up to \$250,000 of a primary home’s value from property taxes, and about 60% of homeowners could eliminate their non-school property taxes, arguably improving affordability.

However, this creates uncertainty for cities and counties that rely heavily on property taxes to fund services, like public safety and infrastructure. Areas with lower home values and limited tourism revenue are most at risk of related budget shortfalls.

The proposal excludes school taxes and special assessments, so bonds backed by those revenues may be less affected. Still, the bigger issue is how lost revenue will be replaced. Options include state funding, higher sales taxes, or increased local fees, but none are clearly defined yet.

For investors, this uncertainty matters. Bonds in Florida which are tied to property tax revenues could face pressure if funding gaps emerge. In contrast, sectors less reliant on affected property taxes — such as school districts, toll roads, major universities, and healthcare systems — may be less vulnerable to this specific change, though these sectors carry their own risks. This voter referendum only impacts Florida, and throughout the rest of the U.S. we remain favorable on local government general obligation debt.

Table 1. Large cities more vulnerable to amendment impact

City	Property tax reliance (as a percent)	Percent of homesteads under \$500,000
Ocala	85	92
Lakeland	82	90
Palm Bay	80	88
Deltona	80	87
Gainesville	78	90
Tallahassee	75	90
Port Charlotte	78	85

Table Sources: Zillow, "Florida Housing Market," data as of April 30, 2026. The Market Distillery, "How Much is a House in Florida? 2025 Home Prices by Metro," May 2026. Florida League of Cities, "Florida Formula: Property Tax Educational Toolkit." – compiled with Co-Pilot.

Table 2. Large cities less vulnerable to amendment impact

City	Property tax reliance (as a percent)	Percent of homesteads under \$500,000
Hialeah	50	50
Miami Beach	40	45
Homestead	55	40
Doral	45	45
Weston	45	40
Tamarac	55	35
Naples	35	30

Table Sources: Zillow, "Florida Housing Market," data as of April 30, 2026. The Market Distillery, "How Much is a House in Florida? 2025 Home Prices by Metro," May 2026. Florida League of Cities, "Florida Formula: Property Tax Educational Toolkit." – compiled with Co-Pilot

Real Assets

Amanda Martinez

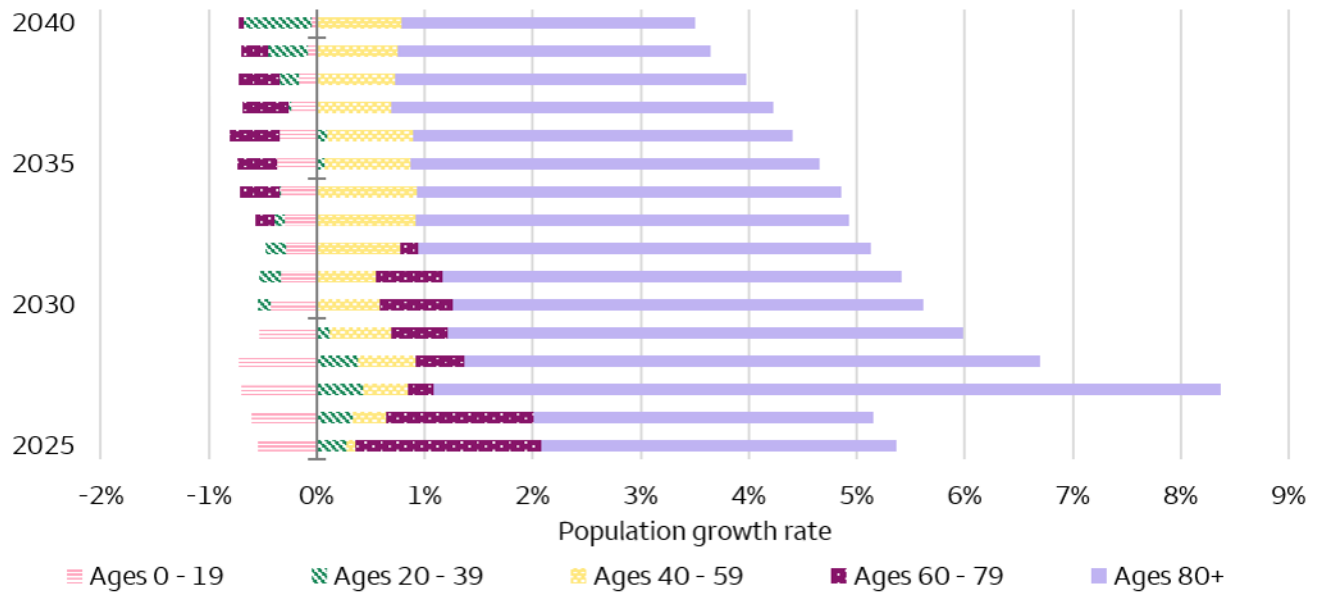
Equity Sector Analyst, Real Estate (REITs)

Demographic transition supporting senior-housing REITs

While the Real Estate sector as a whole may struggle to generate sustained outperformance amid persistently high interest rates, we see pockets of opportunity related to secular tailwinds. The Health Care REITs sub-sector is one such area, with a focus on senior-housing exposure, which has grown to represent a significant portion of the group’s composition.

Our favorable view of senior housing is driven in part by an emerging demographic shift as the first baby boomers begin turning 80 this year. Growth of the population aged 80 and older has accelerated and is estimated at a nearly 28% rate between 2025 and 2030. The population aged 80 and older is expected to expand by 55% between 2025 and 2035 while on average, all other population groups are expected to grow by just under 6% (see Chart 3).

Chart 3. The demographic shift underlying expected growth in senior-housing demand



Sources: U.S. Census Bureau and Wells Fargo Investment Institute. Data as of May 21, 2026. Projections represent 2023 projections from the U.S. Census Bureau.

Meanwhile, senior-housing supply growth remains subdued, even as average stabilized occupancy has improved to near pre-pandemic levels, absorption has remained strong, and average rents have increased steadily.² Supply growth averaged less than 1% per year from 2023 through 2025, and new development — a process that often spans roughly two years from planning to completion — has remained sluggish. Together, these factors have culminated in a supportive supply-demand backdrop that contributes to our favorable view of the Health Care REITs sub-sector.

2. Absorption represents the net increase in occupied units. Figures current through the first quarter of 2026.

Alternatives

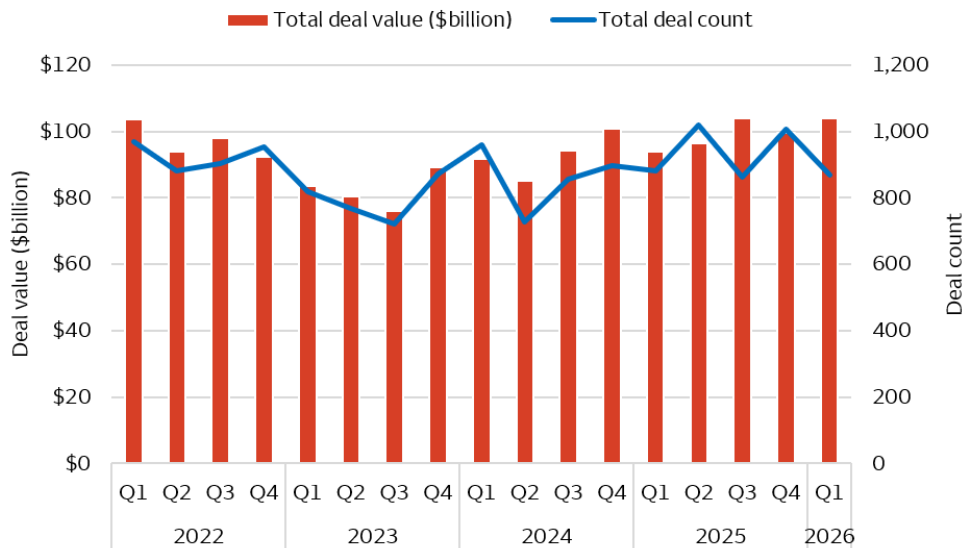
Chao Ma, PhD, CFA, FRM

Global Portfolio and Investment Strategist

Small- and mid-buyouts have stayed active

Small- and mid-buyout sub-strategies focus on investing in established middle-market companies, typically generating between \$10 million and \$1 billion in annual revenue. According to the National Center for the Middle Market, there are nearly 200,000 U.S. middle-market companies contributing roughly one-third of the nation’s GDP. We believe this represents a broad and diverse opportunity set for investors. Transaction activity in the small- and mid-buyout market has remained solid in 2026. In the first quarter, deal volume exceeded \$100 billion, marking the highest first-quarter level in five years and a modest year-over-year increase (see Chart 4). We believe this suggests continued investor interest in smaller transactions, even as attention has also expanded to larger deals. Within small- and mid-buyouts, investor preferences have shifted toward businesses tied to areas such as data center expansion and electrification.³ At the same time, interest in traditional software models has softened, which we believe is partly due to tighter credit conditions and uncertainty surrounding the potential impact of AI on long-term growth.

Chart 4. Small- and mid-buyout deal activity continued to show resilience in first quarter of 2026



Sources: Pitchbook and Wells Fargo Investment Institute. Data as of March 31, 2026. Q1 = first quarter. Q2 = second quarter. Q3 = third quarter. Q4 = fourth quarter.

We maintain a favorable outlook on the small- and mid-buyout sub-strategies, which we believe will be supported by several structural tailwinds. Entry valuations tend to be lower in small- and mid-buyouts than in large buyouts. Given the smaller transaction sizes, small- and mid-buyouts also often rely less on debt financing, which may help limit sensitivity to changing private credit conditions as lending standards tighten. In addition, we believe small- and mid-buyouts can provide diversification benefits. In our opinion, exposure to a wide range of middle-market companies may help broaden portfolio exposure and balance risk, especially as both public and private equity markets become more concentrated.

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.

3. Pitchbook, “U.S. Private Equity Middle Market Report,” June 12, 2026.

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, July 6, 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. **Municipal bonds** offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income. 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.

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. 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.

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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.

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