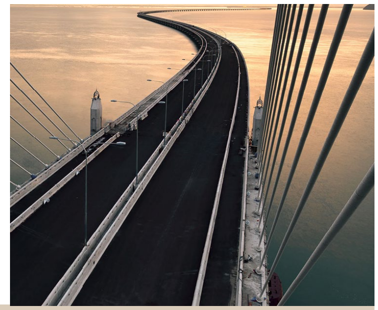


Investment Strategy

Weekly guidance from our Investment Strategy Committee **July 13, 2026**

Global Economic Spotlight

Jennifer Timmerman
Global Macro Analyst

How the AI-investment boom impacts inflation

Much of the U.S. economy's resilience over the past year can be attributed to an extraordinary capex cycle tied to the AI-buildout. Perhaps less visible has been AI's direct contribution to the buildup of inflation pressures already percolating before the Gulf conflict and further aggravated by recent war-related supply-chain disruptions. Upstream, wholesale inflation (prices businesses pay) as measured by the Producer Price Index (PPI) climbed 6.5% year-over-year (YoY) in May, more than double 2025's year-end rate. Even stripping out volatile food and energy, core PPI increased 4.9% YoY in May from 2.7% in June 2025. While some of this price pressure has stemmed from U.S. tariff increases over the past year, much of the increase has been tied to brisk spending on AI-related and other technology and automation to improve productivity and drive profit growth. Among the confluence of forces sparking inflation:

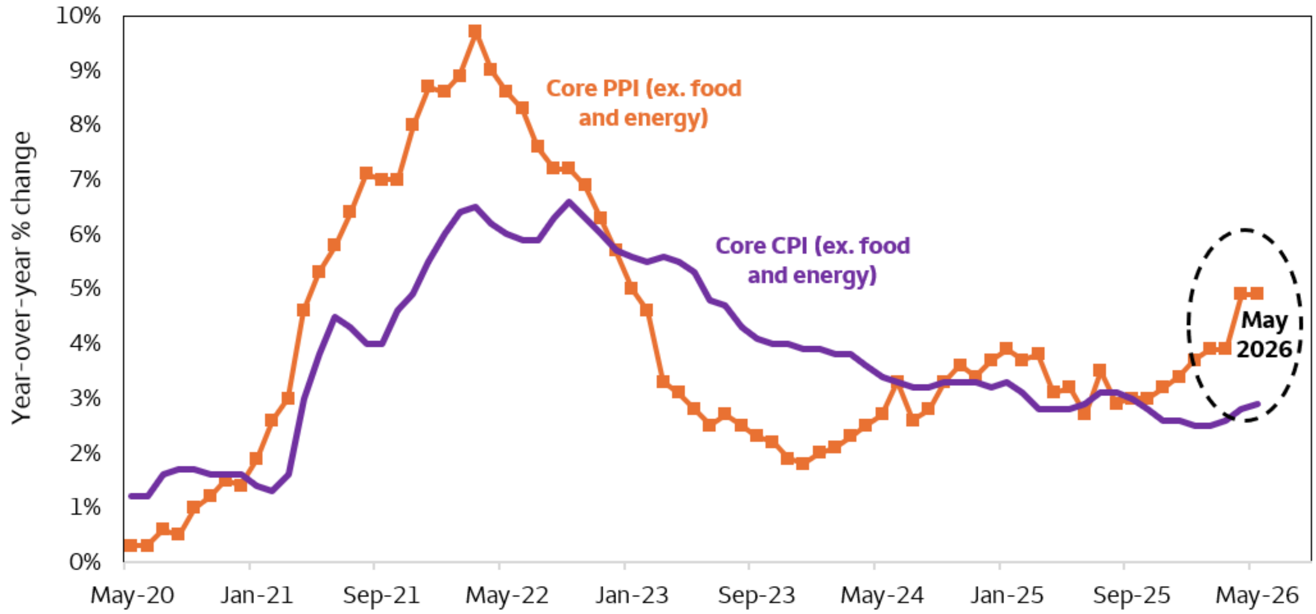
1) Global shortages for semiconductors and industrial inputs
2) Elevated energy costs tied to the explosion of AI data-center capacity
3) "Panic ordering" by companies in a race to secure resources to build data centers and expand chip manufacturing capacity

We expect PPI inflation to remain uncomfortably high for the foreseeable future. We believe the scale of AI-related order backlogs for capital goods is substantial enough that elevated investment spending should persist through our forecast horizon of 2027. On the bright side, extraordinary profit margins of AI hyperscalers (the largest providers and users of computing capacity) give them the wherewithal to absorb rapid wholesale price increases, for now muting the passthrough to consumers.

Underlying consumer inflation better insulated

Limited passthrough of upstream pressure on technology costs has helped limit the impact of AI spending on core Consumer Price Index (CPI) inflation, to a 12-month rate of 2.9% in May from 2.5% before the war in February (see Chart 1). Most of the pressure on core inflation has not come from AI-related corporate spending but from fuel, airfares, metals, and other tradeable goods exposed to energy and other supply shocks. The limited passthrough of tech-related cost pressures to the consumer is one of several factors limiting the rise in core CPI inflation, including slowing inflation for rent (accounting for 30% of consumer expenditure as measured in the CPI) and, more generally, the "invisible hand" of tech-related productivity gains, which have helped cool unit labor costs (the largest expense item for most businesses). YoY growth in unit labor costs has been trending steadily lower since the first quarter of 2025, due both to a deceleration of compensation per hour and to accelerated growth of productivity throughout the past year, to a third-quarter 2024 high.

Chart 1. Underlying consumer prices more subdued than wholesale prices



Sources: Wells Fargo Investment Institute and Bureau of Labor Statistics. Data as of July 8, 2026. PPI = Producer Price Index. CPI = Consumer Price Index.

Still, headline CPI matters more for consumers who must also purchase food and energy, and that measure jumped 4.2% in May from just 2.4% in January. The U.S. economy arguably runs on energy and so may be susceptible to energy-related CPI inflation through 2026. This is largely due to the elevated fuel costs of the past four months. We expect inflation eventually to ease more noticeably in 2027, as the Persian Gulf reopens and the global energy and raw materials flow re-accelerates. But that pace of easing likely depends upon how much longer the U.S. and Iran use Gulf access as leverage in their negotiations.

Looking into 2027, we believe CPI inflation's decline over the course of the year will meet growing resistance from a turn away from rental disinflation, steadier oil prices, and, perhaps, firmer unit labor cost increases and goods inflation as the latest round of tariffs gradually kick in. Additionally, there is a risk of greater passthrough of higher chip prices to consumer electronics, if chip shortages do persist next year. These price dynamics may complicate Fed policy deliberations, but for now, we believe Fed officials will maintain a cautious approach, reluctant to raise (or lower) borrowing costs through 2027.

Investors may weather the heat by "making lemonade from lemons"

In our view, some inflation is not necessarily bad for the stock market or investors. Certain equity sectors and subsectors can actually benefit from higher prices. For example, within Materials, we prefer Industrial Gases and Specialty Chemical companies, which are well positioned to pass along higher input costs to their business customers. Overall, we prefer to keep exposure to longer-term themes — with AI and technology spending being the dominant trend — but adjust portfolios when potential opportunities appear to add value. We continue to favor equities over fixed income and, within equities, the Information Technology sector, as well as Materials, Utilities, and Industrials, which build out AI capabilities but appear less expensive to us. Finally, we prefer investors consider some allocation to commodities, which can serve as a useful inflation hedge and more general portfolio diversifier.

Equities

Mason Mendez
Global Real Assets Analyst

Technology earnings face a high bar

Second-quarter earnings season begins the week of July 13 with Financials reporting first. While banks will set the tone, investor attention is likely to center on the Information Technology sector, where Bloomberg consensus estimates call for an impressive 59.3% YoY earnings increase.

Technology has been the primary driver of the S&P 500 Index's earnings growth, fueled by continued investment in AI. Expectations are also supported by the sector's strong history of earnings growth and profitability, with operating and net income margins nearly twice those of the broader index.

That said, expectations are elevated, leaving little room for disappointment. We continue to see attractive fundamental and thematic drivers for the sector, particularly as AI adoption expands across industries. However, we believe a combination of ambitious earnings forecasts and uncertainty around the interest-rate outlook could contribute to increased market volatility in the months ahead.

While we do not expect the Fed to raise borrowing costs, shifts in market expectations could still affect equity performance, particularly within higher-growth sectors such as Information Technology. Additional concerns around the sustainability of AI-related capital spending, current valuations, and the approaching midterm election cycle may also create headwinds. Notably, volatility among global technology companies — especially AI and semiconductor-related firms — has already increased this year and is at its highest level since 2020 (see Chart 2).

We remain constructive on both the Information Technology sector and U.S. Large Cap Equities, but we expect volatility to persist. For investors, we recommend maintaining an overweight position in U.S. equities while reducing excessive concentration in technology. We believe that attractive opportunities may exist in adjacent sectors with compelling valuations, including Financials, Materials, and Utilities.

Chart 2. Volatility is rising among global semiconductor leaders

Sources: Bloomberg and Wells Fargo Investment Institute. Daily data is from January 1, 2020 – July 3, 2026. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Fixed Income

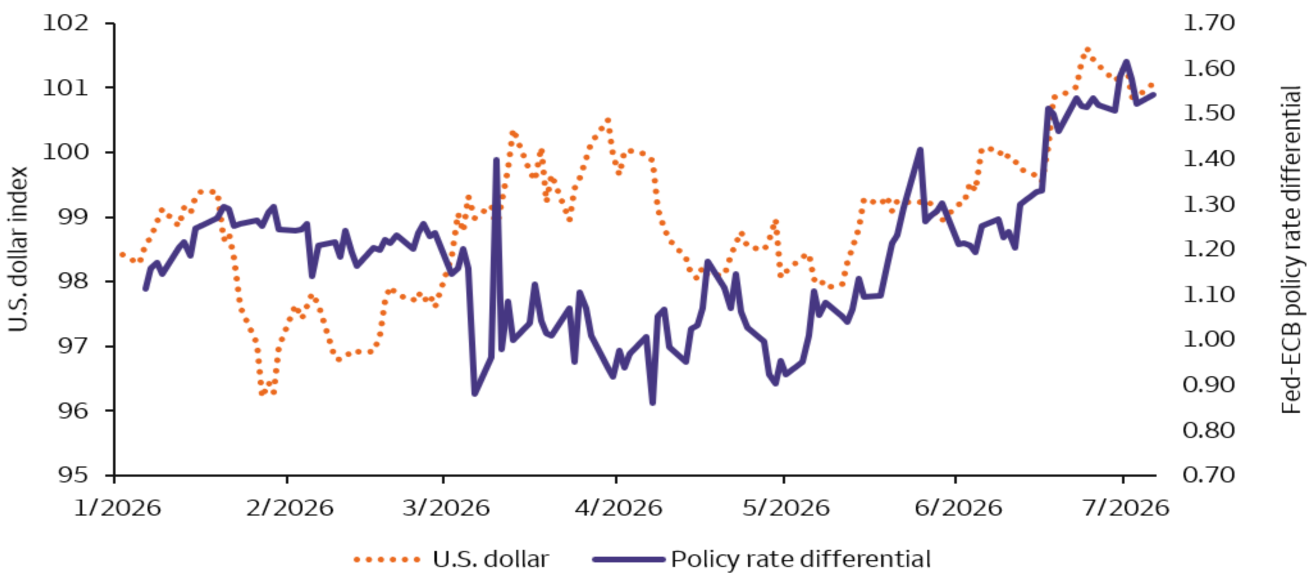
Tony Miano, CFA, CAIA
Global Fixed Income Analyst

A rising interest-rate differential underpins the dollar — for now

The U.S. dollar has strengthened recently, but we do not expect this strength to last. Earlier this year, global investors bought U.S. dollars as a perceived relatively safer place to hold money during geopolitical uncertainty. As those concerns have moderately eased and oil prices have declined, that source of support has weakened, in our opinion.

The dollar's latest move appears tied closer to interest-rate expectations. Chart 3 below illustrates how rising U.S.-Euro area policy interest-rate differentials have supported the U.S. dollar since early June. A wider expected interest-rate differential would generally make the U.S. dollar more attractive.

Chart 3. Fed-ECB rate differentials support the U.S. dollar



Source: Bloomberg, as of July 6, 2026. Rate differential is represented by Futures market pricing for year-end 2026 rate expectations of the Federal Reserve (Fed) minus the European Central Bank (ECB). The U.S. dollar is represented by the ICE U.S. Dollar Index, a trade weighted index of major developed markets currencies versus the U.S. dollar. **Past performance is no guarantee of future results.**

We think this support may be temporary. In our view, a narrower interest-rate differential and elevated foreign-investor hedging could cap the dollar's upside and put downward pressure on the currency.

Beyond the interest-rate differential, we believe the U.S. dollar remains elevated relative to many major currencies, leaving room for weakness if current sources of support fade. For example, we also expect economic growth outside the U.S. to gradually improve relative to recent years, which could encourage investors to diversify internationally rather than remain concentrated in U.S. assets. A softer dollar could create a more supportive backdrop for U.S. investors to consider international markets.

Across major currencies, we see greater potential for dollar weakness against the euro than against the Japanese yen. Even if U.S. rate expectations decline, the yen faces structural challenges which may limit its upside, in our view.

Real Assets

Alex Sagal
Global Equity Analyst

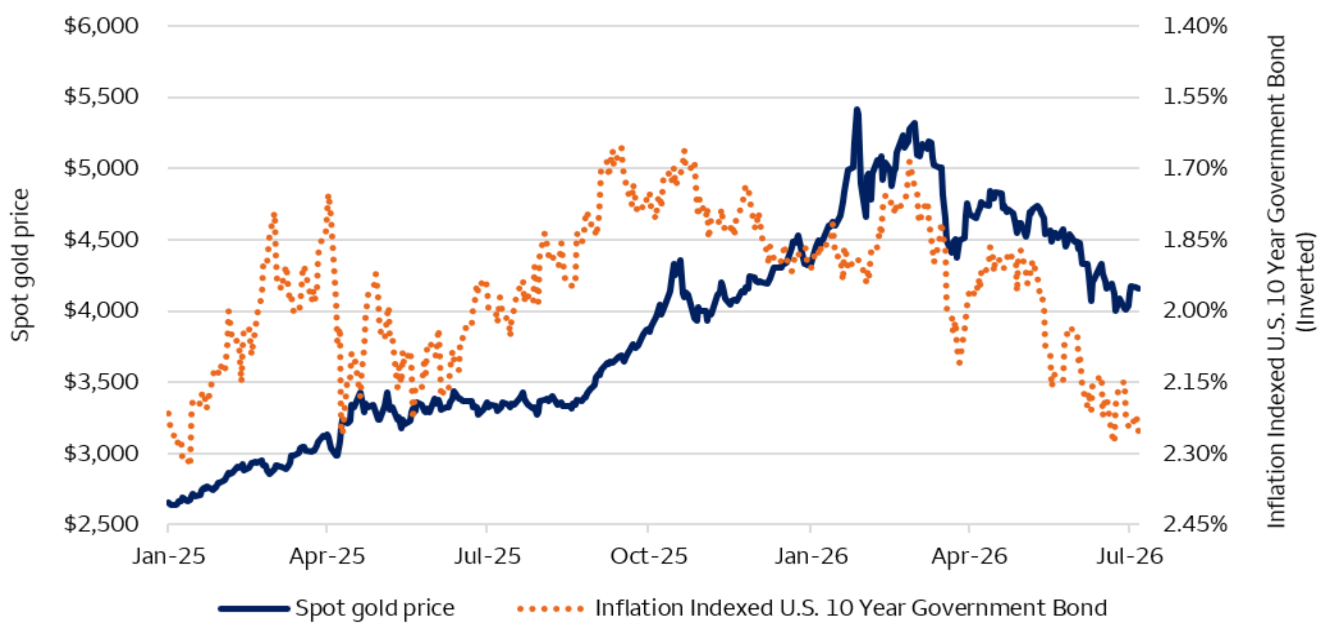
Gold pullback, long-term outlook intact

Gold has declined more than 20% from its January high, with spot gold recently near $4,173 per troy ounce (oz) versus its all-time high of $5,417/oz. The pullback has been driven by profit-taking, gold ETF outflows, rising market expectations of a Fed rate hike, a stronger U.S. dollar, and temporary central-bank selling tied to fiscal pressures from higher energy costs.

While several factors have contributed to the recent weakness, the shift in rate expectations is particularly important given gold's historical relationship with real yields. Historically, gold and real yields have been inversely correlated (see Chart 4, axis inverted for real yields). Because gold does not pay interest or dividends, falling inflation-adjusted yields reduce the opportunity cost of holding gold and can encourage investors to buy a non-yielding store of value. Conversely, higher real yields make income-producing assets relatively more attractive. The recent increase in Fed tightening expectations has therefore weighed on gold at the margin. However, our view is that the Fed will be able to avoid interest rate hikes as energy and supply-chain disruptions slowly ease, which should allow real rates to start reversing.

Beyond a peak in real yields, we continue to like gold for several reasons. Central-bank demand remains a key structural support, as reserve managers continue to diversify holdings and use gold as a long-term store of value. Geopolitical uncertainty also supports gold's reserve and hedge appeal, particularly as sanctions and global fragmentation remain prominent risks to many governments around the world. Our price targets imply meaningful upside from current levels. We reiterate our gold target of $5,300–$5,500/oz by year-end 2026 and $5,800–$6,000/oz by year-end 2027.

Chart 4. Gold prices and real yields have been inversely related



Sources: Bloomberg and Wells Fargo Investment Institute. Data from January 1, 2025, through July 6, 2026. 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.**

Alternatives

Mark Steffen, CFA, CAIA
Global Alternative Investment Strategist

Private markets poised for continued growth

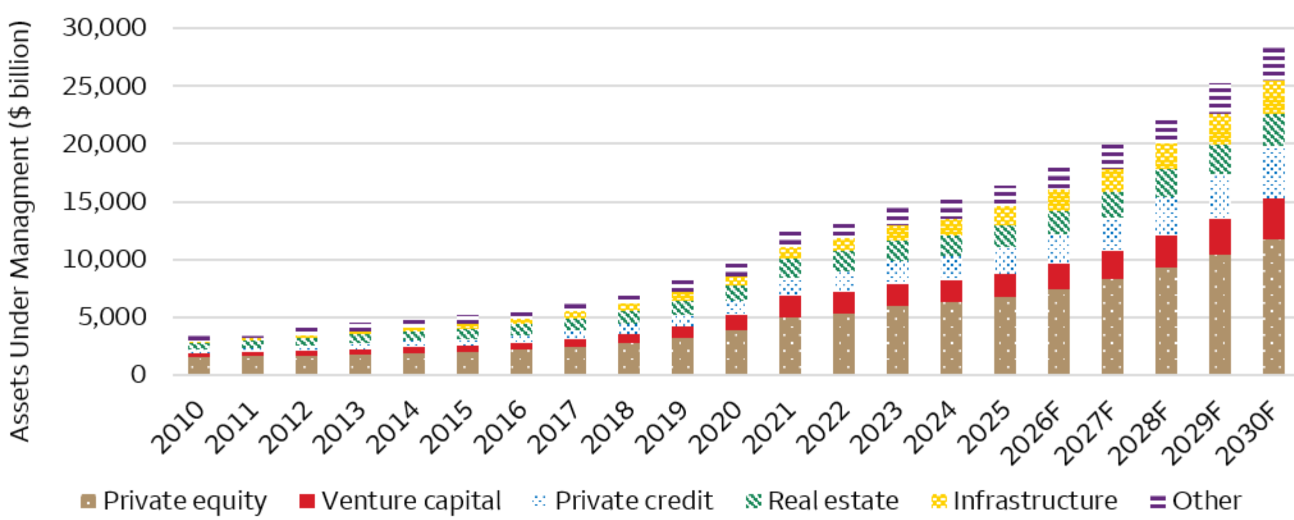
Private market assets continue to gain prominence, as companies stay private longer and investors seek diversification beyond traditional stocks and bonds. While private capital asset growth has moderated in recent years, the long-term trajectory remains intact. According to Preqin, data as of December 31, 2025, assets in private capital strategies have expanded dramatically, rising from less than $3.5 trillion in 2010 to over $16.4 trillion at the end of 2025 and are projected to reach nearly $28.4 trillion by 2030 (see Chart 5).

Today, more than 11,000 companies are backed by private equity sponsors, compared with roughly 3,900 publicly listed U.S. companies.[1] Increased access to private capital has enabled businesses to fund growth without the regulatory requirements and short-term earnings pressures of public markets. As a result, many companies remain private during their highest-growth years, giving qualified investors access to value creation that historically occurred after a public listing.

Interest is also driven by the potential benefits of alternative investments. Private equity, private credit, infrastructure, and private real estate provide access to opportunities beyond those typically available in public markets. In addition to greater potential returns, private assets may enhance diversification because their performance has often been less correlated with traditional stocks and bonds. Infrastructure, in our view, as well as certain private real estate and credit strategies, can also offer relatively stable cash flows and defensive characteristics during periods of uncertainty.

As private markets continue to expand, qualified investors who thoughtfully incorporate private assets alongside traditional investments can potentially access a broader opportunity set that may help achieve long-term financial objectives. However, alternative investments involve unique risks, including illiquidity, operational complexity, leverage, valuation uncertainty, and regulatory or political risks. Qualified investors should carefully evaluate these and other strategy-specific considerations before investing.

Chart 5. Growth in private capital assets expected to continue rising



Source: Preqin. Data as of December 31, 2025. Private capital excludes hedge funds; Values for private credit include Business Development Companies (BDCs); other semi-liquid funds are excluded. Values relate to end of year. Others include natural resources, secondaries, and fund of funds. F = futures.

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. Pitchbook — Number of private equity backed companies. Number of publicly listed U.S. companies: World Bank Group, World Federation of Exchanges database. Data as of July 7, 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 13, 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. Investing in gold, silver or other precious metals involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry. Investing in **gold, silver** or other **precious metals** involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry. **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. This can result in greater price volatility. 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. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues. 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.

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

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's Global Semiconductor Top 20 Price Return Index is a rules-based equity index designed to provide exposure to a select group of global companies that derive significant revenue from the semiconductor industry.

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

Producer Price Index (PPI) is a family of indexes that measures the average change in selling prices received by domestic producers of goods and services over time.

Preqin's alternative investment definitions include all funds reporting to its database that are classified as private equity, venture capital, private credit, real estate, infrastructure, or hedge funds. Funds that do not fall within these categories are grouped into the "Other" category.

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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