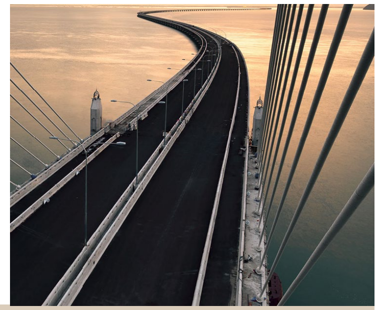
WELLS FARGO
Investment Institute



Investment Strategy

Weekly guidance from our Investment Strategy Committee **August 10, 2026**

Equities Spotlight

Douglas Beath
Global Equity Strategist

Awsaf Tamjid Arko
Global Equity Strategy Associate

Fed policy uncertainty and rising bond yields

In our view, several factors are amplifying uncertainty across financial and commodity markets, a dynamic that is likely to persist in the coming weeks and months. We have maintained a cautious outlook heading into the late-summer period, which has historically been a seasonally weaker period of performance for equities, and comes just ahead of the midterm election cycle. Additional potential sources of volatility include second-quarter earnings season and the performance of technology stocks, as investors increasingly focus on profits and the artificial intelligence (AI) impact on productivity rather than the scale of capital spending alone.

We believe another major risk for equity markets is the gap between investor expectations and Fed policy. Two weeks ago, policymakers held interest rates steady while reaffirming their commitment to returning inflation to the 2% target. With inflation above target since early 2021, investors remain focused on how quickly and aggressively the Fed may need to act. Case in point: equity markets initially weakened after Chair Walsh's post-Federal Open Market Committee (FOMC) comments, as investors weighed limited forward guidance and uncertainty around the new leadership's commitment to the 2% inflation target. A key risk is that rates remain higher for longer, reducing the present value of future earnings and pressuring equity valuations, particularly among AI-related stocks.

As of August 6, Fed funds futures markets were pricing in a 58% chance of a rate hike at the September 6 FOMC meeting, according to Bloomberg, with an additional hike projected through the end of 2027. That would mark a reversal from an easing policy that took place from mid-September 2024 to December 2025, before the current pausing phase.

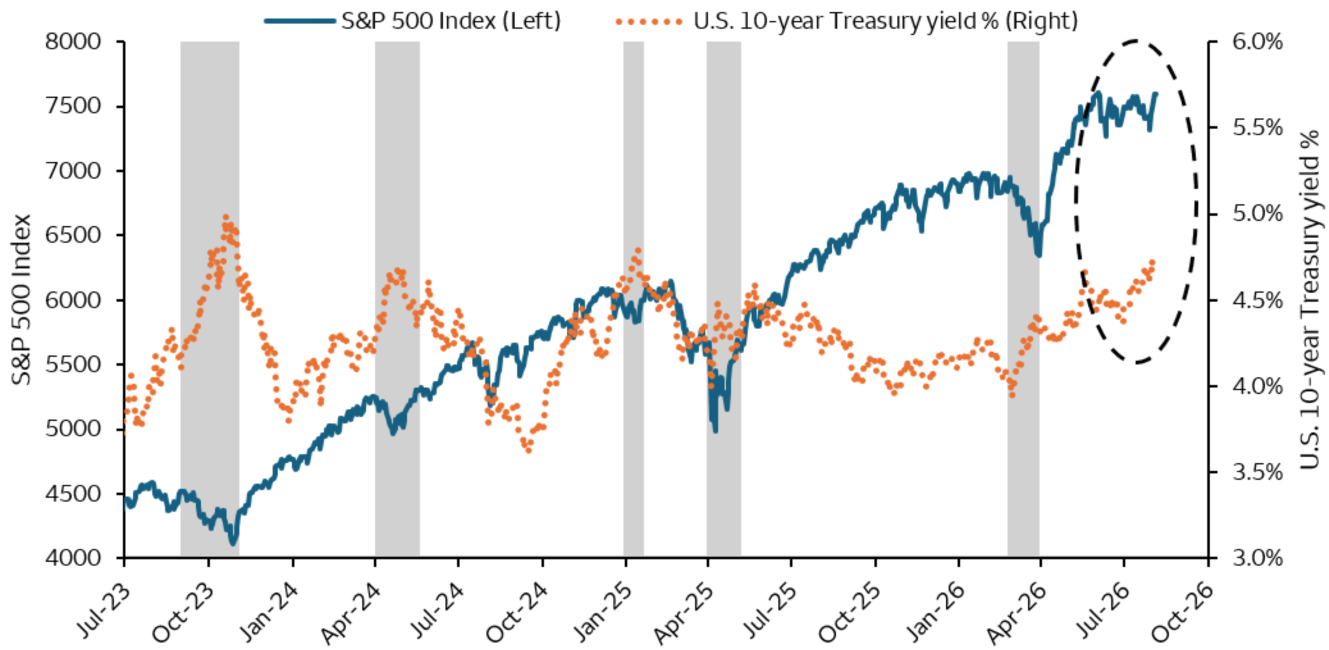
Rising long-term Treasury yields

We also see rising long-term yields as a significant potential headwind to the current bull market. During the month of July, the 10-year Treasury yield spiked from 4.37% to 4.73%, while the 30-year Treasury remained above 5% and at its highest level since 2007, per Bloomberg. In our view, higher inflation-adjusted yields reflect rising capital needs tied to AI infrastructure, energy investment, and government borrowing to fund large deficits. Rising interest rates can also pressure stocks by raising borrowing costs for consumers, slowing demand and reducing the value investors place on future earnings.

A second implication is that rising bond yields are starting to look competitive with the earnings yield on the S&P 500 Index. The 12-month forward earnings yield on the S&P 500 Index is 4.73% as of July 31 (Bloomberg), about the same as the current 10-year Treasury yield. Thus, for yield-oriented investors, the 10-year Treasury may look as attractive as the S&P 500 Index. Bond yields also are rising in other countries such as Europe and Japan, providing more competition for non-U.S. equities and potentially leading to higher volatility for global equity indexes.

Chart 1 shows that, in the post-COVID period, rising 10-year Treasury yields have often weighed on equity performance, especially when the benchmark yield has moved above 4.5%. The shaded areas identify periods when rising yields appeared to pressure equities: 2023, when the Fed signaled that rates could stay higher for longer; 2024, when hotter inflation data delayed expected Fed rate cuts; 2025, during the "Liberation Day" tariff announcements; and 2026, at the start of the Iran conflict. The current period is also highlighted, showing that although higher yields have once again limited S&P 500 Index gains, equities have remained resilient and avoided a meaningful pullback.

Chart 1. Higher Treasury yields have pressured equity returns



Sources: Wells Fargo Investment Institute and Bloomberg. Daily data as of August 4, 2026. Yields represent past performance and fluctuate with market conditions. Current yields may be higher or lower than those quoted above. An Index is unmanaged and not available for direct investment. Shaded regions represent periods when rising U.S. 10-year Treasury yields appeared to coincide with weaker index performance. **Past performance is no guarantee of future results.**

What it means for investors

Long-term Treasury yields have pulled back some after spiking in July and equities have continued climbing to record highs, supported by strong earnings growth, especially in the technology sector.

Still, we believe monetary policy uncertainties, rising long-term yields, and geopolitical tensions are increasing the risk of an equity market pullback just as we're entering the historically weakest three-month period (August-October) and approach the midterm elections. Sharp increases in bond yields have historically coincided with weaker stock returns, with the speed of yield moves especially important.

The good news is that we think markets will eventually see through these issues, and we reiterate our broader preference for equities over bonds. We do expect Middle East tensions to keep energy prices elevated in the near term, but looking into 2027, we expect lower topline inflation if geopolitical conditions improve and oil prices decline.

To summarize, we expect a healthy but slower economy and some additional inflation, including the growing risk for a Fed-rate hike. In our view, U.S. Large Cap Equities remain our preferred equity exposure in the current investing landscape, along with the Financials, Technology, Materials, and Utilities sectors.

Fixed Income

Tony Miano, CFA, CAIA
Global Fixed Income Analyst

Higher yields do not always mean better opportunities

Long-term Treasury yields are among the highest levels investors have seen in years. At first glance, these yields may appear to offer a worthwhile opportunity to lock in income. However, we believe investors should look beyond headline yields. Income alone does not necessarily imply strong return potential, particularly when longer-maturity bond prices remain highly sensitive to changes in interest rates and other factors, as we describe in the cover story.

As Chart 2 below illustrates, long-term Treasury yields are elevated relative to recent history. Yet yield is only one component of total return. If long-term rates rise further from current levels, price declines could offset much of the income investors receive. The additional yield available from longer maturities appears limited relative to the substantial increase in interest-rate sensitivity associated with these bonds. We believe long-term yields could remain under upward pressure as large government borrowing needs coincide with inflation that remains above the Fed's 2% target, potentially impacting returns.

Chart 2. 10-year Treasury yields since 2011

Source: Bloomberg as of August 4, 2026. The 15-year average value for the 10-year Treasury yield was 2.61%. 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.**

Given these considerations, we do not believe long-term bonds currently offer a compelling risk-reward tradeoff. Accordingly, we maintain an unfavorable view on Long Term Taxable Fixed Income. By contrast, Short Term Taxable Fixed Income, where we are favorable, has significantly less exposure to rising yields. Investors seeking additional income do not necessarily need to look to longer maturities to achieve it. In our view, selectively adding short-term investment-grade credit may provide a more efficient way to enhance portfolio yield. While credit exposure carries its own risks, we currently view those risks as better compensated than the interest rate exposure associated with maturities longer than seven years.

Real Assets

Alex Sagal
Global Equity Analyst

Diversifying with Commodities

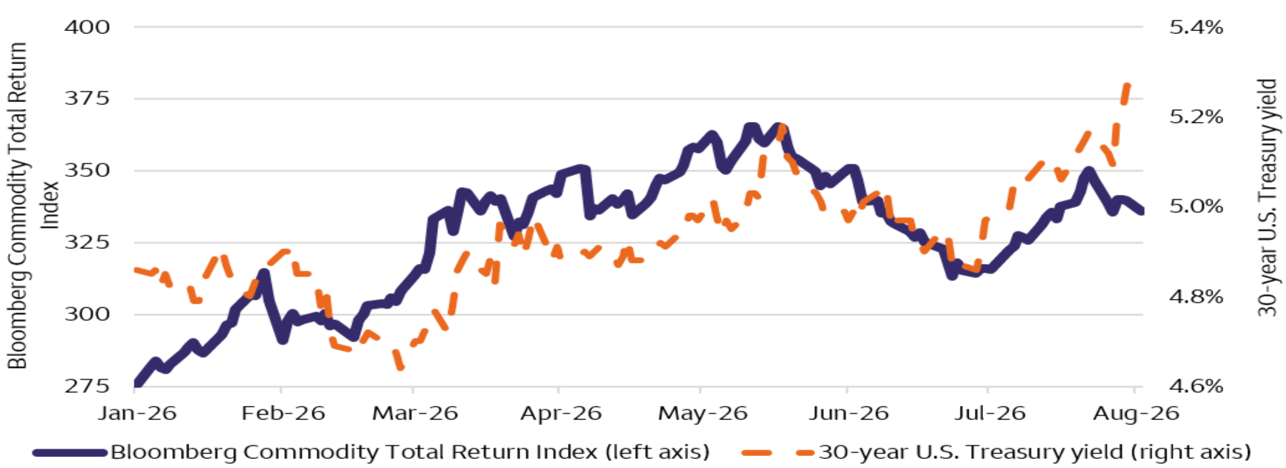
Investors often think about portfolio diversification in terms of stock and bond allocations, but recent markets have reinforced the value of adding Commodities that can behave differently when traditional asset classes struggle, especially when the struggle comes from inflation driven by rising commodity prices. Commodities provide exposure to the physical inputs that drive the global economy, including energy, metals, and agricultural products, and their return drivers often differ from those of equities and fixed income. That distinction matters in periods when inflation, higher interest rates, geopolitical shocks, or supply disruptions put pressure on stocks, bonds, or both at the same time.

The diversification case is supported in our recently published 2026 Capital Market Assumptions (CMAs). The correlation matrix used in the CMAs shows that Commodities have a negative correlation with U.S. Investment-Grade Fixed Income, along with a positive correlation with their yields (see Chart 3). Additionally, Commodities have only moderate positive correlations with equity asset classes over a long-term time horizon, which suggests they may add a differentiated source of return to equities as well.

That diversification benefit has become more timely this year. Commodities, as measured by the Bloomberg Commodity Index, have returned 22% year to date[1] through August 3, outpacing both the S&P 500 Index and the U.S. Aggregate Bond Index. We upgraded Commodities to favorable on July 16, reflecting our view that supply constraints, geopolitical uncertainty, a potential global oil inventory rebuild, and long-term demand from electrification and technology infrastructure can support the asset class over the next 12 to 18 months.

The recent resurgence of conflict in the Persian Gulf strengthens the “why now” case for Commodities. Global oil markets have faced pressure from geopolitical tensions and supply-chain disruptions, with the Strait of Hormuz remaining an important swing factor for energy markets. Within Commodities, we see particular opportunities in Precious Metals and Industrial Metals, where central-bank reserve demand, inflation-hedging characteristics, electrification, and AI infrastructure investment may help lead the next leg higher.

Chart 3. Commodity prices have increased alongside long-term bond yields



Sources: Bloomberg and Wells Fargo Investment Institute. Data from January 2, 2026, through August 3, 2026. Yields represent past performance and fluctuate with market conditions. Current yields may be higher or lower than those quoted above. An Index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

1. Bloomberg, as of August 3, 2026.

Alternatives

Mark Steffen, CFA, CAIA
Global Alternative Investment Strategist

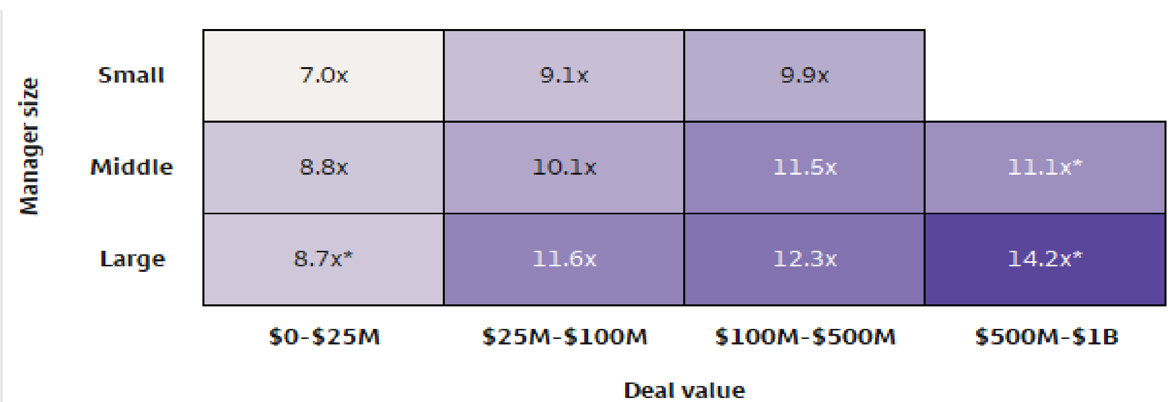
Small-mid buyout remains underinvested opportunity

While large buyout deals garner much of the investor attention, we continue to see compelling opportunities in small- and mid-market buyout strategies within private equity. These businesses, typically generating between $10 million and $1 billion in annual revenue, make up roughly 90% of the U.S. private company universe.[2] Despite their large presence, they remain an underinvested part of the private equity market.

We believe three structural advantages support the long-term appeal of this segment.

- Less competition: Smaller companies vastly outnumber large businesses, yet only a relatively small share of private equity capital is dedicated to this market. This gives managers a larger opportunity set and allows them to be more selective when making investments.
- Greater opportunities to improve the business: Many of these companies are founder-led or family-owned. Experienced private equity firms can help strengthen operations, professionalize management teams, improve governance, and drive growth initiatives.
- Valuations tend to be lower: Small- and mid-market companies have historically been acquired at lower purchase prices relative to larger businesses. As shown in Chart 4, entry valuations[3] for managers with small- and middle-market strategies are generally lower than their larger peers. Moreover, smaller deal values also generally trade at lower valuations, leading to greater potential for value creation over time.

Chart 4. Average entry valuations by manager size and deal value (2015-2020 vintages)



Sources: Pitchbook and Stepstone, based in U.S., as of June 8, 2026. Time frame analyzed includes vintages from 2015 to 2020. *Denotes cohort size smaller than 50 deals. M = millions. B = billions. Valuations multiples are measured by Total Enterprise Value (TEV) divided by earnings before interest, taxes, depreciation, and amortization (EBITDA).

The current environment may further support the opportunity. Private credit lenders continue to provide financing for transactions, and large amounts of uninvested capital, often referred to as "dry powder," are expected to support future deal activity and exits.[4] Additionally, smaller debt levels can make these transactions more manageable in a higher-interest-rate environment.

In our view, the combination of structural advantages, improving market conditions, and attractive long-term return potential continues to make small- and mid-market buyout strategies an appealing area of private equity.

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. Source: Gerber Taylor, “The Role of Private Equity in Portfolios,” Sean Montesi and Kojo McLennon. Data as of October 2021. M = million.
3. Valuations: Measured as Total Enterprise Value (TEV) divided by earnings before interest, taxes, depreciation, and amortization (EBITDA). TEV/EBITDA is also known as the Enterprise Multiple and is a common ratio to assess a company’s fair market value that compares a company’s total worth (including equity plus debt minus cash) to its core operating cash flow (EBITDA). Time frame analyzed includes vintages from 2015 to 2020.
4. Pitchbook US PE Breakdown Q2 2026, Citi Executive M&A Summary, First half 2026 edition.

Tactical guidance*

Cash Alternatives and Fixed Income

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

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Digital Assets Private Real Estate	Commodities 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, August 10, 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. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Digital assets also known as cryptocurrency or bitcoin, as an asset class is highly volatile, can become illiquid at any time, and is for investors with a high risk tolerance. Digital assets may also be more susceptible to market manipulation than securities. Digital assets are not insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. Investors in crypto do not benefit from the same regulatory protections applicable to registered securities. Digital asset or cryptocurrency is not a physical currency, nor is it legal tender. Bitcoin and other cryptocurrencies are a very speculative investment and involves a high degree of risk. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment, and a potential total loss of their investment. An investor could lose all or a substantial portion of his/her investment. Digital assets have limited operating history or performance. Fees and expenses associated with digital asset investment may be substantial. Digital assets are sometimes exchanged for U.S. dollars or other currencies around the world, but they are not backed or supported by any government or central bank. Their value is completely derived by market forces of supply and demand, and they are more volatile than traditional fiat currencies. Digital asset futures carry all the risks of traditional futures contracts plus additional crypto-specific risks.

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.

Private equity investments are less transparent than public investments and private equity investors are afforded less regulatory protection than investors in registered public securities. Private equity funds are sold in private placements and may be offered only to individuals who are both "qualified purchasers" (as defined in U.S. Investment Company Act of 1940, as amended) and "accredited investors" (as defined in the Securities Act) and for whom the investment is otherwise appropriate.

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. 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.

Definitions

Bloomberg Commodity Index is comprised of 22 exchange-traded futures on physical commodities and represents 20 commodities weighted to account for economic significance and market liquidity.

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.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond 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.

Valuations: Measured as Total Enterprise Value (TEV) divided by Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). TEV/EBITDA is also known as the Enterprise Multiple, and is a common ratio to assess a company's fair market value that compares a company's total worth (including equity plus debt minus cash)) to its core operating cash flow (EBITDA). Time frame analyzed includes vintages from 2015 to 2020.

An index is unmanaged and not available for direct investment.

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-02062028-5820430