WELLS FARGO
Investment Institute

Investment Strategy

Weekly guidance from our Investment Strategy Committee **September 28, 2026**

Geopolitical Spotlight

Michelle Wan, CFA
Global Asset Allocation Strategist

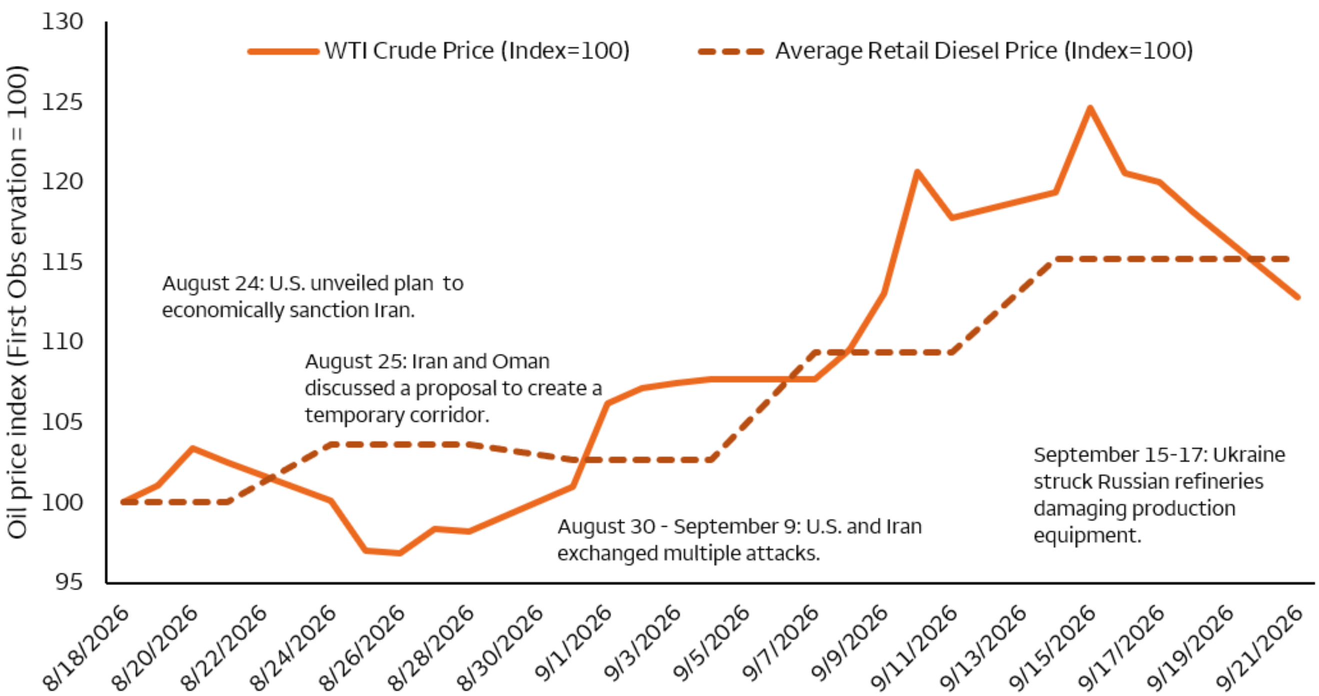
When geopolitics becomes a price signal

Since the Iran war began on February 28, the most visible price response has been in commodities. Over the past month, oil prices' sensitivity to headline news about attacks and ceasefires (Chart 1) suggests the market remains focused on whether and when the Strait of Hormuz reopens. We believe the more important question is whether the cost structure returns to its pre-war state or retains a geopolitical risk premium, a sustained additional cost to transit oil due to geopolitical risk. Commercial shipping, insurers, and energy buyers increasingly must price the possibility of ongoing threat of disruption rather than a one-time event. There is already oil shipping through the Strait, but no matter when the Strait reopens fully, the delivery cost of energy may remain higher for longer.

Headline-driven volatility

Oil's recent path illustrates how oil prices have moved in response to geopolitical events. Crude temporarily declined on August 24 after U.S. Treasury Secretary Scott Bessent announced secondary financial sanctions. Meanwhile, Iran and Oman discussed a potential transit corridor through the Strait leading to further price declines on August 25. Both infused hope that the pressure on oil shortages may ease. That relief was brief. Renewed attacks persuaded markets that disruption may last longer than originally anticipated. Besides the war in Iran, continued Ukrainian attacks on Russian refineries have pushed diesel prices higher. Because diesel is the primary fuel used by trucks, railroads, ships, and much of the industrial economy, higher diesel prices can have a broad impact on transportation and shipping costs.

Chart 1. Daily oil movements respond to renewed strikes



Sources: Bloomberg and Wells Fargo Investment Institute. Daily prices from August 18, 2026, to September 21, 2026. WTI = West Texas Intermediate. For WTI, nearby futures prices are used.

The structural changes behind the headlines

The impact goes beyond daily energy price moves. A group of 18 maritime nations warned that global shipping may be facing more than temporary disruptions. They described it as “a structural shift in the operating environment of global trade.”[1] War-risk insurance is one example. S&P Global reports that these added premiums rose from below 1% of a ship’s value pre-war to 7.5%-10% in July 2026.[2]

Pressure on Iran also has become more structural, combining physical blockade and financial measures. On August 24, the U.S. Treasury launched Operation Economic Outcast, expanding the risk of secondary sanctions across digital assets, gold, technology, aviation, and shipping. The blockade limits Iran’s exports and revenue, while the sanctions target its cash flow and access to U.S. dollars. Iran is already facing nearly 90% year-over-year consumer inflation and almost 130% food inflation.[3] We believe the combined pressure from the blockade and financial sanctions increases the chance of negotiations to reopen the Strait. Iran has more reason to negotiate as economic pressure rises. A credible agreement could clarify the terms for reopening and reduce the extra geopolitical risk built into oil prices. That could ease some upward pressure on inflation and bond yields. Until then, crude oil and diesel prices may remain high through the winter.

Maintain quality and liquidity while the structural risk premium persists

- Our base case is that negotiations and periodic conflict will continue while the U.S. and Iran seek leverage. Oil prices may remain high in the near term. Although higher global energy costs also affect the U.S., we continue to prefer **U.S. equities over international equities** in part because the U.S. has more domestic energy supply.
- Within **U.S. equities**, higher oil prices and interest rates could pressure stock prices and company profits. We continue to favor **large-cap companies** because they generally have stronger finances and are better able to manage higher costs than smaller firms.
- We are neutral on the Energy sector. However, on a sub-sector level, we favor **Integrated Oil Companies** and **Midstream Energy**. The integrated oil companies are well positioned to benefit from the current strength in both crude oil prices and refined products. Midstream Energy companies are positioned to benefit from infrastructures needed to link abundant U.S. natural gas supplies with growing global demand.
- For **fixed income**, rising interest rates lowers bond prices, especially for longer-term bonds. We favor **short-term fixed income** to provide income and liquidity with less sensitivity to rising rates.
- Daily headlines may move markets, but the longer-term risk is that energy, shipping, and financing costs remain high. Investors should stay invested, diversified, patient, and disciplined. We believe the goal is to own strong businesses that can grow through market volatility while avoiding risks that could cause lasting losses.

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1. Financial Times, “Global Shipping Rules Are Collapsing, Say Maritime Nations,” September 8, 2026.
2. S&P Global, “Middle East Shipping Insurance Costs Rise on Hormuz Risks: Marsh,” July 22, 2026.
3. “Impoverished by war in Iran, Afghan migrants return to Taliban rule,” Reuters, September 16, 2026.

Equities

Mason Mendez
Global Real Assets Analyst

Rising rates and resilient equities

Investors are once again focusing on higher interest rates and what they could mean for equities, as the Fed raised the federal funds rate by 0.25 percentage point for the first time since 2023. While rate hikes may create short-term volatility, history suggests that if they occur for the right reason, such as tamping down inflation in an otherwise strong economy, they are rarely enough to derail a bull market. With resilient economic growth, strong earnings momentum, and artificial intelligence (AI) adoption, we believe the fundamental backdrop remains favorable for U.S. large-cap equities.

As shown in Table 1, the S&P 500 Index has historically risen despite the start of a Fed hiking cycle. Each cycle's performance varied. However, since 1928, returns were positive 12 months after an initial Fed rate hike in 67% of instances, with a median return of 6%. We think the reason is simple: interest rates are not the only driver of market performance. Trends in earnings, economic activity, and long-term investment themes have often proven more influential.

Over the coming months, we expect periodic volatility as investors assess issues including Fed actions, inflation, and midterm elections. While rate-sensitive sectors may face headwinds from higher borrowing costs, the broader market remains supported by resilient economic growth, continued AI investment, and earnings expectations calling for roughly 13.8% year-over-year growth in 2027.[4] Together, these trends support our favorable view on U.S. large-cap equities and 2027 S&P 500 Index target of 8,600-8,800.

For investors, our key takeaway is to stay diversified and invested. While periods of uncertainty can be uncomfortable, they often create opportunities. Therefore, we continue to favor stocks over bonds, remain favorable on U.S. large-cap equities, and view pullbacks as opportunities to add risk.

Table 1. S&P 500 Index performance around initial Fed rate hikes

Initial Fed hike	12 months before initial Fed hike	6 months before initial Fed hike	6 months after initial Fed hike	12 months after initial Fed hike	CPI 12 Months after initial Fed hike	Other influential market factors
2/3/1928			11.3%	48.5%	0.0%	Roaring twenties
4/25/1946	26.4%	13.0%	-20.7%	-22.4%	19.0%	Post-war normalization
4/15/1955	35.9%	19.7%	8.6%	26.3%	0.7%	Post-recession expansion
9/12/1958	8.3%	14.4%	16.6%	18.3%	1.4%	Post-recession recovery
7/17/1963	21.4%	5.8%	11.1%	21.9%	1.3%	1960's economic expansion
11/20/1967	12.8%	-0.5%	5.2%	15.8%	4.7%	Fiscal stimulus
1/15/1973	14.6%	10.9%	-12.1%	-20.4%	9.4%	Oil embargo and recession
8/31/1977	-6.0%	-3.1%	-10.1%	6.7%	7.8%	Economic expansion
9/26/1980	14.9%	28.0%	7.9%	-10.7%	11.0%	Oil shock and recession
9/4/1987	24.8%	9.7%	-15.6%	-16.5%	4.2%	Black Monday
2/4/1994	4.5%	4.7%	-2.4%	1.9%	2.9%	Economic expansion
6/30/1999	21.1%	11.4%	6.7%	6.0%	3.7%	Technology and internet boom
6/30/2004	17.1%	2.8%	6.4%	4.4%	2.5%	Economic expansion and housing boom
12/16/2015	5.1%	-1.1%	0.2%	8.9%	2.1%	Improving labor market and steady economic growth
3/16/2022	10.0%	-2.6%	-11.1%	-9.1%	5.0%	Russia's invasion of Ukraine
Average	15.0%	8.1%	0.1%	5.3%	-	-
Median	14.7%	7.8%	5.2%	6.0%	-	-
% of time positive	92.9%	71.4%	60.0%	66.7%	-	-

Sources: Bloomberg, and Wells Fargo Investment Institute. Daily data is from February 3, 1918 – March 16, 2023. An index is unmanaged and not available for direct investment.
Past performance is no guarantee of future results.

4. Bloomberg consensus full year 2027 EPS versus 2026 EPS.

Fixed Income

Luis Alvarado
Co-Head of Global Fixed Income Strategy

Why we favor securitized bonds

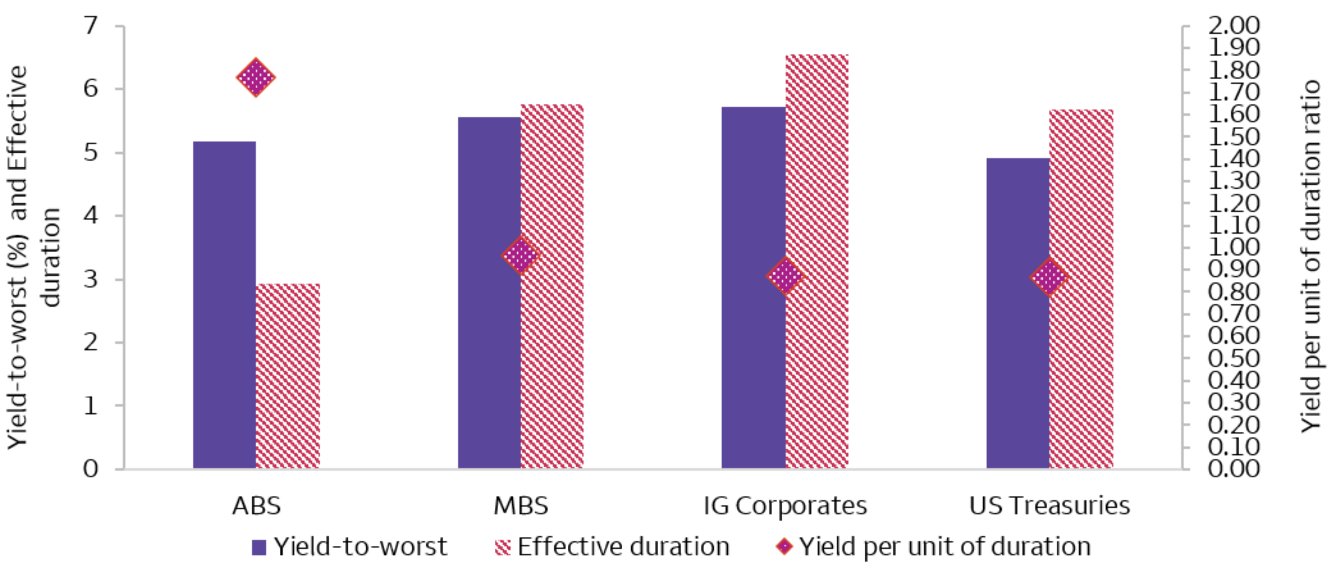
Securitized bonds remain among our preferred fixed-income sectors because investors continue to receive attractive income with lower interest-rate risks. Mortgage-backed securities (MBS) and asset-backed securities (ABS) offer higher yields than similar-maturity U.S. Treasuries and competitive yields relative to many high-quality corporate bonds. Meanwhile, the loans supporting these securities potentially reflect a combination of resilient underlying fundamentals and diversification benefits within fixed-income allocations.

Agency MBS — mortgage bonds backed by U.S. government-sponsored agencies — also look attractively valued. They offer high credit quality and can generally be bought and sold easily. One risk is that homeowners may refinance and repay their mortgages earlier than expected. For now, however, higher mortgage rates have reduced refinancing activity, making the timing of investor cash flows more predictable.

We also favor ABS, which are bonds supported by payments on consumer loans such as auto loans and credit cards. Consumer credit performance has normalized from unusually strong pandemic-era conditions, but household balance sheets remain solid overall — especially among higher-quality borrowers.[5] High-quality ABS continue to offer attractive additional income over Treasuries, along with built-in protections designed to absorb some borrower losses if issues arise.

Changes in interest rates and the pace at which borrowers repay their loans remain important risks to watch. Even so, current yields offer a meaningful cushion against potential market weakness. In our view, the balance between risk and reward continues to support our favorable guidance on securitized bonds.

Chart 2. ABS and MBS are offering attractive income opportunities



Sources: Bloomberg and Wells Fargo Investment Institute as of September 22, 2026. The yield to worst is calculated by making worst-case scenario assumptions by calculating returns that would be received if provisions, including prepayment, call, or sinking fund are used by the issuer. Effective duration is a measure of interest rate risk when valuing bonds with embedded options. Yield per unit of duration is expressed by yield-to-worst divided by the effective duration. Indexes represented are the Bloomberg U.S. Agg Asset-Backed Securities (ABS) Index, Bloomberg U.S. Mortgage-Backed Securities (MBS) Index, Bloomberg U.S. Corporate Bond Index, and Bloomberg U.S. Treasury Index. IG Corporates = investment-grade corporate bonds. An index is not available for direct investment. **Past performance is no guarantee of future results.**

5. Federal Reserve Board, "Financial Stability Report", May 28, 2026.

Real Assets

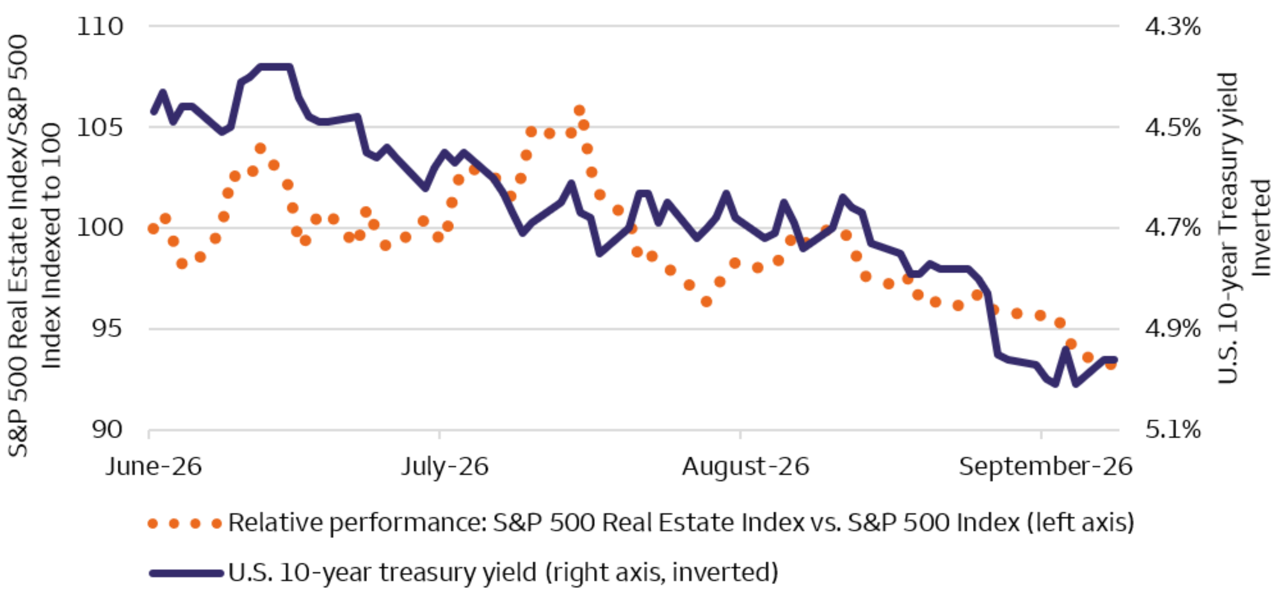
Alex Sagal
Global Equity Analyst

Rates remain the key challenge for Real Estate

The Real Estate sector underperformed the S&P 500 Index by 6.5% from June 15 (when we downgraded the sector to unfavorable) through September 22. The relative weakness validates our view that rising long-term interest rates would present a significant obstacle to Real Estate performance.

The 10-year U.S. Treasury yield has risen from 4.47% at the time of our downgrade to 4.96% as of September 22. Higher yields increase borrowing and refinancing costs, weaken the economics of property acquisition and development projects, and reduce the present value of future property cash flows. They also heighten competition from fixed-income investments, diminishing the relative appeal of real estate investment trust (REIT) dividends. Chart 3 illustrates these pressures, showing Real Estate's relative performance against the S&P 500 Index alongside inverted long-term Treasury yields to highlight the sector's negative relationship with rates.

Chart 3. The Real Estate sector's performance struggled as interest rates rose



Sources: Bloomberg and Wells Fargo Investment Institute. Data from June 15, 2026, through September 22, 2026. An index is not available for direct investment. **Past performance is no guarantee of future results.**

Underlying fundamentals have been more resilient than sector performance suggests. Industry-wide funds from operations and net operating income have continued to grow, while healthy occupancy, rent growth, and limited additions to supply have supported portions of the market. Nevertheless, we believe constructive operating trends are unlikely to fully offset the more consequential pressure from elevated yields. Expensive financing, upcoming refinancing needs, subdued transaction activity, selective tenant uncertainty, and limited balance-sheet flexibility should continue to constrain growth and valuation expansion. We therefore maintain our unfavorable view and believe sustained relative outperformance remains unlikely.

Accordingly, we continue to view Real Estate as a funding source within equity allocations. For investors seeking income elsewhere, neutral-rated Energy may offer opportunities among financially flexible integrated producers and midstream companies. Short-term investment-grade or municipal fixed income may provide additional alternatives.

Alternatives

Chao Ma, PhD, CFA, FRM
Global Portfolio and Investment Strategist

Small- and mid-buyouts remained resilient

Small- and mid-buyout 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, nearly 200,000 U.S. middle-market companies contribute roughly one-third of the nation's gross domestic product (GDP), representing a broad and diverse opportunity set for investors.

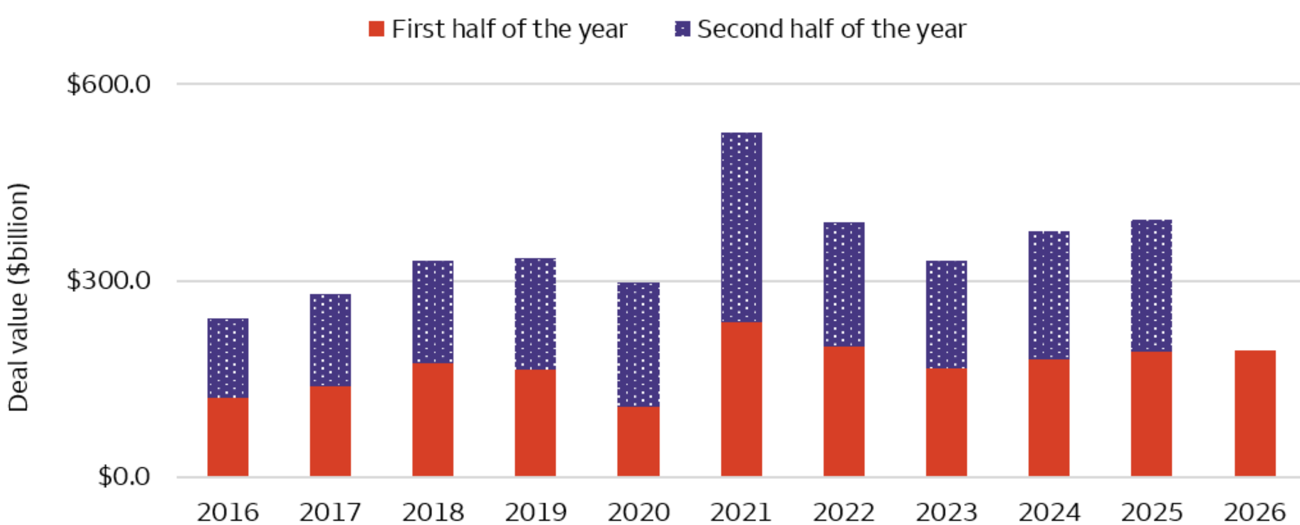
The small- and mid-buyout market has remained resilient in 2026. In the second quarter, deal count increased, while deal value declined only modestly from the record levels reached in the first quarter (see Chart 4). This contrasts with the broader private equity market, where deal value fell 40% quarter over quarter. We believe this relative resilience highlights the segment's defensive characteristics and ability to navigate periods of heightened uncertainty.

Within the market, AI-related deal activity continued to grow.[6] At the same time, interest in traditional software businesses softened, which we believe reflects tighter credit conditions and concerns regarding the long-term impact of AI on growth prospects. Fundraising also remained strong and is on pace to surpass 2025 levels.

We maintain a favorable outlook on small- and mid-buyout strategies, supported by several structural tailwinds. Entry valuations are generally 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, limiting sensitivity to changing private credit conditions.

We also believe small- and mid-buyouts offer 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 increasingly concentrated.

Chart 4. Small- and mid-buyout deal activity remained resilient in the first half of 2026



Sources: Pitchbook and Wells Fargo Investment Institute. Data as of June 30, 2026.

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.

6. Pitchbook, "U.S. Private Equity Middle Market Report," September 14, 2026.

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, September 28, 2026. Please see Wells Fargo Investment Institute's Asset Allocation Strategy Report for more detailed, investable ideas in each asset group.

*Tactical horizon is 6-18 months

**Alternative investments are not appropriate for all investors. They are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. Please see end of report for important definitions and disclosures.

Risk considerations

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

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in **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 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.

U.S. government securities are backed by the full faith and credit of the federal government as to payment of principal and interest. Unlike U.S. government securities, agency securities carry the implicit guarantee of the U.S. government but are not direct obligations. Payment of principal and interest is solely the obligation of the issuer. If sold prior to maturity, both types of debt securities are subject to market risk.

In addition to the risks associated with investment in debt securities, a fund's investments in mortgage-backed and asset-backed securities will be subject to prepayment, extension and call risks. Changes in prepayments may significantly affect yield, average life and expected maturity. Extension risk is the risk that rising interest rates will slow the rate at which mortgages are prepaid. Call risk is the risk that If called prior to maturity, similar yielding investments may not be available for the Fund to purchase. These risks may be heightened for longer maturity and duration securities.

There are special risks associated with investing in preferred securities. Preferred securities are subject to interest rate and credit risks. Interest rate risk is the risk that preferred securities will decline in value because of changes in interest rates. Credit risk is the risk that an issuer will default on payments of interest and principal. Preferred securities are generally subordinated to bonds or other debt instruments in an issuer's capital structure, subjecting them to a greater risk of non-payment than more senior securities. In addition, the issue may be callable which may negatively impact the return of the security. Preferred dividends are not guaranteed and are subject to deferral or elimination.

Cryptocurrency and other digital assets often involve significant risks and can be highly volatile. Their value may fluctuate substantially, and investors could lose all or a significant portion of their investment. Digital assets may be subject to market, liquidity, regulatory, and operational risks and may be subject to heightened risks of fraud, cyber incidents, and market manipulation. Digital assets may not provide the same regulatory protections as traditional investment products and often are not insured by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC), or any government agency. Investors should carefully consider their investment objectives, risk tolerance, and financial circumstances before investing in cryptocurrency or other digital assets.

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

Pitchbook Data – Pitchbook uses a variety of publicly available sources found in targeted online searches including more than 1,000,000 web crawlers using national language processing and machine learning, secondary sources (those authored by someone not directly involved in the deal or fund), news (largest source of information) and other online sources. Quality assurance uses preventive validations, corrective validations, and mutual reviews in an effort to ensure accuracy of data. Data is educational and illustrative purposes only and there are no guarantees as to accuracy of data or content.

An index is unmanaged and not available for direct investment.

Bloomberg U.S. Asset Backed Securities Index is a flagship, rules-based benchmark that measures the performance of investment-grade, U.S. dollar-denominated, fixed-rate taxable bonds. It tracks the securitized debt market and is the dedicated ABS component of the broader Bloomberg U.S. Aggregate Bond Index.

Bloomberg U.S. MBS Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA and FHLMC.

Bloomberg U.S. Corporate Bond Index includes publicly issued U.S. corporate and Yankee debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Treasury Index measures the total return US dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. The largest weightings in the index are Treasury notes with maturities of 8-10 years.

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.

S&P 500 Real Estate Index comprises those companies included in the S&P 500 that are classified as members of the GICS Real Estate sector.

General disclosures

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