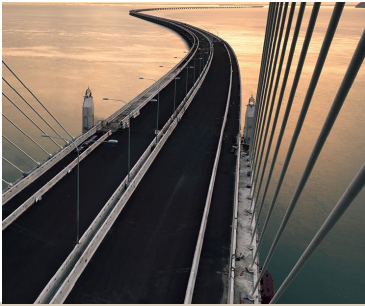


Investment Strategy



Weekly guidance from our Investment Strategy Committee

October 12, 2026

Global Economic Spotlight: Will higher rates spook this economy?..... 2

- Higher rates may create periodic volatility and pockets of stress, but we do not see evidence that they have meaningfully shaken the foundations of economic growth.
- For investors, we think higher yields represent more opportunity than threat. Being mindful of interest-rate risk, we favor shorter over longer-dated bond maturities.

Equities: Narrow market leadership ahead of midterms 4

- The S&P 500 Index has held near record highs despite the volatility from approaching midterm elections, elevated yields, and higher energy prices.
- Market gains have depended heavily on a relatively small group of companies. That narrow participation could leave equities vulnerable to a pullback, which we would view as a potential opportunity to add selectively to favored sectors.

Fixed Income: Responding to the decline in long-term bond prices..... 5

- Although bonds are often viewed as stable investments, rising yields have led to declines in long-term bond prices over the past 10 years. We expect only modest further upside to long-term yields.
- This may provide an opportunity for long-term bond investors to harvest tax losses while shifting funds to shorter-maturity bonds that still offer attractive yields.

Real Assets: What is the futures curve telling us about oil?..... 6

- Brent crude’s futures curve remains “backwardated,” meaning buyers are paying more for oil delivered sooner rather than later, a sign that global supply remains tight.
- While near-term expectations have eased from the summer, the futures curve suggests a slower supply recovery and stickier prices into 2027.

Alternatives: Tax efficiency through long/short investing..... 7

- Tax-aware long/short strategies seek to expand the opportunity set for tax-loss harvesting by increasing the number of positions that can potentially generate losses.
- While these strategies may offer enhanced tax efficiency, we believe investors should also consider the risks associated with leverage, short selling, higher fees, and lower liquidity.

Current tactical guidance 8

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

Global Economic Spotlight

Jennifer Timmerman

Global Macro Analyst

Will higher rates spook this economy?

Rising U.S. Treasury yields have ushered in a fall chill for financial markets. For many investors, higher interest rates evoke memories of recessions and market downturns. Yet the current environment appears to us more nuanced than the traditional late-cycle pattern — when higher interest rates typically slow credit demand, business investment, and consumer spending.

First, it is important to understand why yields are rising. Persistent inflation pressures and expectations for additional Federal Reserve (Fed) policy tightening have played a role. But monetary policy is only part of the story. Elevated budget deficits, heavy Treasury issuance, and increased competition for capital, particularly from corporations funding the artificial intelligence (AI) buildout, are also pushing long-term interest rates higher. Moreover, we believe some of the recent increase in real (inflation-adjusted) yields reflects improving growth and productivity expectations tied to AI adoption rather than a deterioration in financial conditions. In our view, rates are not yet restrictive enough to derail economic growth, in part because AI-related investment has so far remained relatively insensitive to higher borrowing costs.

What lies beneath a peculiar economic cycle: Uneven interest-rate sensitivity

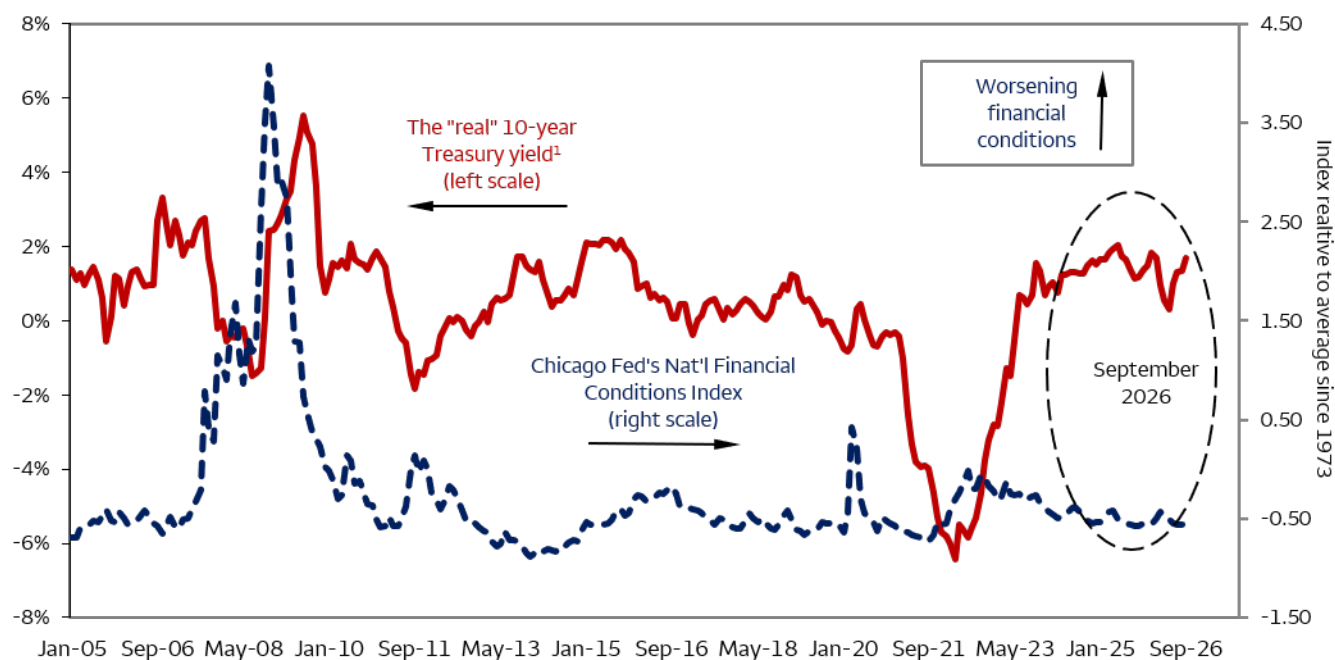
The current AI-led investment cycle remains the primary secular force powering economic growth. Businesses continue to invest heavily in data centers, power generation, communications infrastructure, and productivity-enhancing technologies. Most of these projects are motivated by long-term strategic opportunities rather than short-term financing costs. Moreover, much of the AI buildout has thus far been financed internally, reducing its sensitivity to higher interest rates. As a result, overall business spending has remained remarkably resilient. We estimate real capital-goods orders grew at a double-digit pace in the three months through August, the strongest clip since the post-pandemic recovery in late 2020.

However, parts of the economy have become more vulnerable to rising rates after years of unusually low borrowing costs boosted asset prices and encouraged debt accumulation. Housing affordability has been suppressed by elevated home prices and higher mortgage rates, while growing federal debt has increased the government's sensitivity to refinancing costs. Consumer spending has also benefited from strong gains in stock and home prices, creating wealth effects that could fade if higher rates eventually pressure asset valuations.

The real test: Liquidity conditions

Historically, rising rates slow growth by restricting the cash available for investment and spending, or liquidity. While pockets of strain are emerging, we do not see evidence that credit availability has deteriorated enough to materially impede economic activity.

Measures of overall financial conditions continue to signal adequate, if not ample, liquidity. Real 10-year Treasury yields have moved higher but remain near historical norms rather than levels typically associated with acute financial stress, such as occurred in 2008 (see Chart 1). The yield spread between non-investment grade bonds and comparable U.S. Treasury securities has widened recently as investors recalibrate risk, but they remain well below long-term averages.

Chart 1. “Normal” real rates have yet to summon increased financial stress

Sources: Wells Fargo Investment Institute, Bloomberg, Federal Reserve Board, and the U.S. Labor Department. Data as of September 30, 2026. ¹The 10-year Treasury yield less 12-month Consumer Price Index (CPI) inflation. September 2026 CPI estimated at 3.6%.

The greater risk may be that home and financial asset valuations, which have helped drive strong gains in household wealth and spending, were established in a much lower-rate environment. As a result, they could face pressure from further rate increases, even with rates only modestly above their historical norm.

The economy's balancing act

Even if economic growth moderates in coming quarters, as we anticipate, the economy appears well cushioned by forces that are atypical for this stage of a business cycle. AI-related investment continues to drive business spending, while healthy financial conditions and past wealth creation have helped sustain consumer demand. We believe these strengths, coupled with AI-related productivity gains, will help offset growing weakness in the economy's more credit-sensitive sectors. While some productivity gains reflect businesses investing in more equipment and technology, increasing use of AI across operations and decision-making processes appears to be improving how labor and capital are combined, supporting greater efficiency and helping sustain economic growth.

Higher yields less “trick” and more “treat” for investors

Higher interest rates are creating winners and losers across the economy, but in our view, they do not signal a recession upending investment returns. While some rate-sensitive sectors may face additional pressure, we believe the broader economy and stock market remain well supported by AI-driven investment, strong earnings growth, resilient consumer spending, and sufficiently accommodative financial conditions.

For investors, we think higher yields represent more opportunity than threat. Bonds are once again providing attractive income and serving as portfolio ballast, even if higher yields weigh on prices in the near term. Thus, we favor maintaining diversified fixed-income exposure while being mindful of interest-rate risk, particularly at longer maturities, and we continue to prefer shorter maturities over longer maturities.

Equities

Douglas Beath

Global Equity Strategist

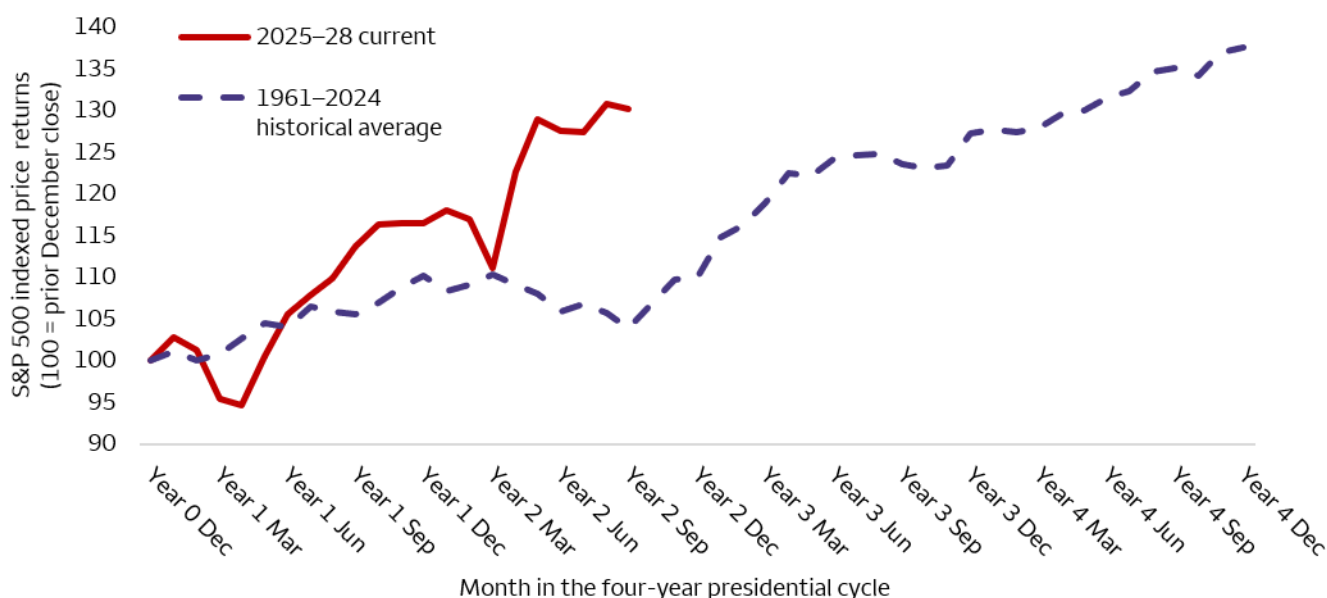
Awsaf Tamjid Arko

Global Equity Strategy Associate

Narrow market leadership ahead of midterms

Since 1961, the S&P 500 Index has typically weakened ahead of midterm elections before rebounding in October and rallying into year-end (see Chart 2). This year, though, the market has remained resilient. The index was nearly flat in September, declining roughly 0.45%, but has generally trended higher since mid-June, reaching record highs in August and again in October. That strength persisted despite elevated Treasury yields, a spike in oil prices, and a Fed interest-rate hike.

Chart 2. Equities have often rallied after the midterms



Sources: Wells Fargo Investment Institute and Bloomberg. Daily data from December 31, 1960, through September 30, 2026. The horizontal axis represents the four-year U.S. presidential election cycle, beginning after a presidential election (Year 0). Midterm elections occur during Year 2 of the cycle. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future returns.**

The resilience has been backed by real strength: corporate earnings are solid, AI continues to fuel growth, and Bloomberg estimates third- and fourth-quarter earnings to rise roughly 25% year-over-year, as of October 6, 2026. The economy is accelerating too, with the Atlanta Fed estimating third-quarter gross domestic product (GDP) growth at 3.7% annualized as of September 30, up from 2.2% in the second quarter.

Still, the headline numbers mask some weakness. While the S&P 500 Index traded near all-time highs through September, the breadth has been narrow. Information Technology and Communication Services were the only sectors to post positive returns in September, while the equal-weighted S&P 500 Index, which gives each company the same weight, fell nearly 5%. This narrow participation suggests that a relatively small group of companies is carrying much of the market's recent uptrend.

What it means for investors

Headline strength should not drive investment decisions on its own. Elections, rising energy prices, higher yields, and a cautious Fed could still spark a broader market pullback in the weeks ahead. We would view broad-market weakness as an opportunity to add selectively. We continue to favor U.S. Large Cap Equities and attractively valued sectors tied to AI investment, including Communication Services, Industrials, and Materials.

Fixed Income

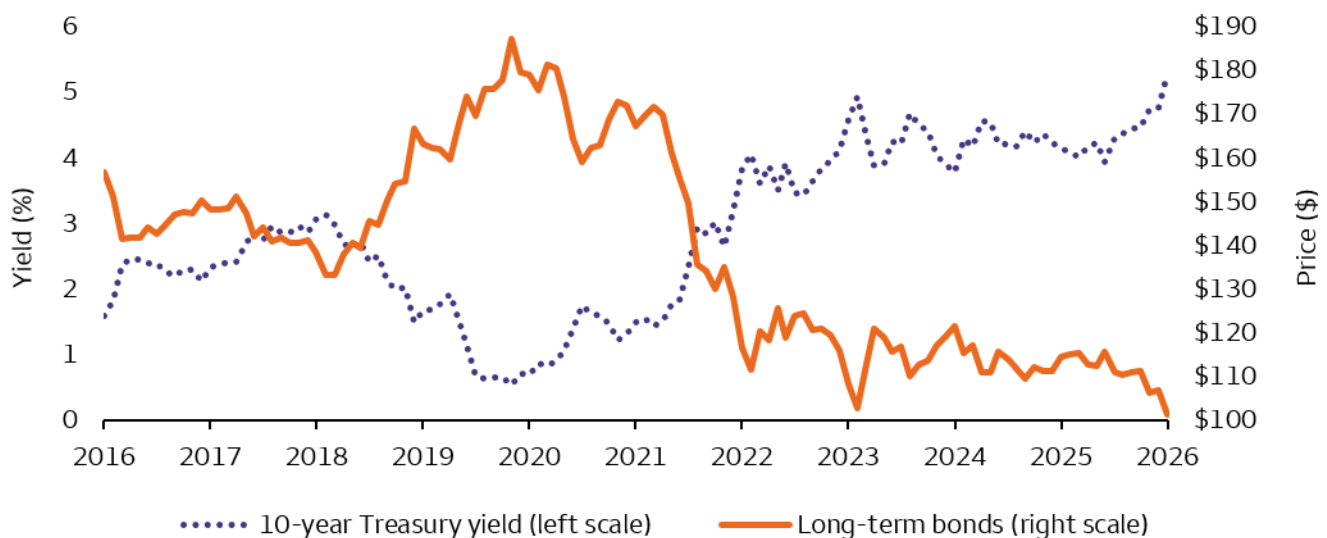
Tony Miano, CFA, CAIA

Global Fixed Income Analyst

Responding to the decline in long-term bond prices

Investors in long-term bonds have faced a challenging period. Although bonds are often viewed as stable investments, rising rates have lowered prices and returns on bonds the investor holds and prompted investors to reassess their long-term holdings. When newly issued bonds offer higher rates, existing bonds become less attractive, and their prices generally fall. Longer-term bonds have the less favorable rate locked in for longer, and so are more sensitive to yield changes. This sensitivity to changes in market yields is referred to as duration. Long-term bonds are more sensitive to these changes, a characteristic known as duration. Long-term bond prices have been significantly impacted by rising yields over the past 10 years (see Chart 3). How should investors be responding to these unexpected declines?

Chart 3. Long-term bond prices have fallen in the last 10 years



Sources: Bloomberg and Morningstar, data as of September 30, 2026. Long-term bonds are represented by the price of the Morningstar U.S. 10+ Year Core Bond Index and does not include coupon returns. The starting price level of this index was 156.55 on September 30, 2016, and the last value was 101.31 on September 30, 2026. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future returns.**

We expect long-term yields to remain under upward pressure as investors continue to focus on inflation and the growing supply of U.S. government debt. While we are unfavorable on Long Term U.S. Taxable Fixed Income as a result, we do not believe investors should abandon bonds entirely. Instead, we favor managing interest-rate risk to ensure that bond holdings match investment goals and believe the rising yields may offer repositioning opportunities for investors.

Tax-loss harvesting decisions depend on an investor's individual circumstances, and if applicable, investors may be able to sell long-term bonds that are trading below their purchase price, use the realized losses to offset taxable investment gains, and reinvest the proceeds in shorter investment-grade maturities, whose yields have risen since summer and which generally have lower duration and therefore less sensitivity to rising interest rates. In today's higher-yield environment, this approach may allow investors to continue generating income while reducing interest-rate risk. Investors who do not need these funds in the near term may instead choose to hold high-quality individual bonds until maturity, when the issuer is expected to repay the principal, provided it can meet its obligations.

Real Assets

Mason Mendez

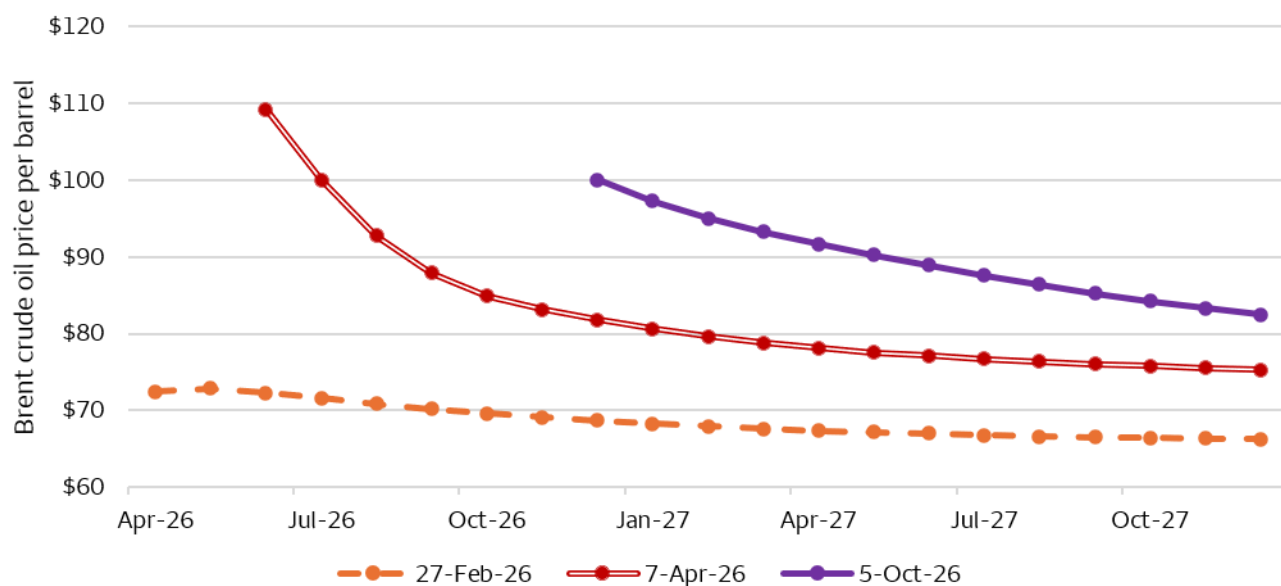
Global Real Assets Analyst

What is the futures curve telling us about oil?

Today's oil price reflects current risks, while the futures curve, the price of oil for delivery in future months, provides insight into what markets expect ahead. For investors, the key question is not just what oil costs right now, but what risks the market sees over the coming year.

For background, Brent's futures curve shows the price of crude oil at different delivery dates, and the shape of the curve says a lot. Today, Brent's curve is in backwardation, meaning oil costs more for delivery sooner rather than later. That shape usually shows up when supply is tight. Generally, the steeper the slope, the more risks the market is worried about in the near term (see Chart 4).

Chart 4. Comparing Brent's futures curve throughout the conflict



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data is as of October 5, 2026. Each curve represents the series of future prices of oil for delivery as of the date indicated.

Comparing the curve at three different times — before the war, before the first ceasefire, and today — reveals how expectations have shifted. Before the war, markets expected an adequate supply, with little concern for shortages, and so the curve was nearly flat (orange line). That flipped once the Middle East conflict cut off roughly 20% of the world's oil supply, which pushed the curve into steep backwardation (red line). Yet, much of the steepness sat in 2026, meaning the market assumed supply disruptions would be temporary and normalize by 2027.

Today, market appears less concerned about severe shortages over the coming months than it did during the summer, shown by a tighter spread between the current price and next closest month (purple line, first two dots). However, the 2027 portion of the curve has steepened, which suggests markets now believe tight supply could last longer than previously expected. Furthermore, the entire curve has also shifted higher as the conflict has dragged on.

For investors, this echoes our view that energy markets could remain tight for a while. We still recommend commodities as a hedge against energy-driven inflation risks, and we recently raised our 2027 year-end forecasts for West Texas Intermediate and Brent crude to \$75–\$85 and \$80–\$90 per barrel, respectively.

Alternatives

Chao Ma, PhD, CFA, FRM

Global Portfolio and Investment Strategist

Tax efficiency through long/short investing

Traditional tax-loss harvesting strategies, such as direct indexing, hold individual securities and seek to realize capital losses when stock prices decline. These losses can be used to offset gains elsewhere, potentially reducing an investor's tax liability in a given year.¹ While often effective in the early years, the loss-generating potential of these strategies may diminish over time as market values generally appreciate and fewer positions remain below their cost basis.

Tax-aware long/short strategies seek to expand the opportunity set for tax-loss harvesting. By utilizing leverage and short selling,² these strategies increase the number of positions that can potentially generate realized losses (see Chart 5). Because they maintain both long and short exposures, managers may be able to harvest losses through market cycles, realizing losses on short positions during rising markets and on long positions during major drawdowns. This broader opportunity set may also provide greater flexibility for managers to pursue pre-tax excess returns while maintaining portfolio risks consistent with benchmark objectives.

When thoughtfully designed and implemented, tax-aware long/short strategies may also help long-term investors transition highly appreciated concentrated positions in a more tax-efficient manner.

Despite their potential tax advantages, we believe investors should carefully weigh these benefits against the risks associated with long/short tax-aware strategies, including leverage, short selling, higher fees, potentially less liquid fund structures, as well as evolving tax regulations.³

Chart 5. Long/short tax-aware strategies aim to expand the opportunity available



Sources: Wells Fargo Investment Institute, as of October 5, 2026. For illustrative purposes only. The chart assumes a hypothetical \$100 investment in a traditional long-only strategy (left). The 130/30 strategy shown on the right consists of \$130 in long positions and \$30 in short positions. Actual tax-aware long/short strategies may employ different levels of long and short exposure and may not reflect the allocations shown in this example.

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. Tax-loss harvesting strategies generally defer tax liabilities by selectively realizing losses, while accumulating unrealized gains over time. As a result, the terminal tax benefits depend on the investor's exit strategy, whether through asset sales, charitable donations, or estate transfers.
2. Leverage involves using borrowed capital to increase investment exposure, while short selling involves borrowing and selling a security with the expectation of repurchasing it later at a different price.
3. Potential tax benefits are dependent on prevailing tax laws and Internal Revenue Service interpretations, both of which are subject to change. Wells Fargo Investment Institute does not provide tax or legal advice; investors should consult with their tax and legal advisors before implementing any investment strategy.

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, October 12, 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.

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

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

Morningstar US 10+ Yr Core Bond Index tracks the performance of fixed-rate, investment-grade, U.S. dollar-denominated debt securities with remaining maturities of greater than 10 years.

Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets, and the traditional and "shadow" banking systems.

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.

General disclosures

Unless otherwise noted, market data, index data, economic statistics, earnings data, and related analytical information referenced throughout this report are sourced from Bloomberg and Wells Fargo Investment Institute, as of October 6, 2026.

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