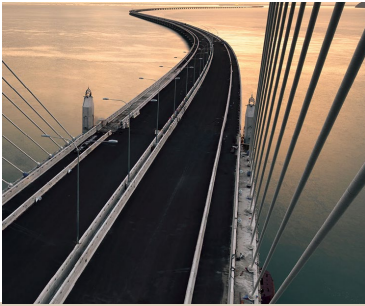


Investment Strategy



Weekly guidance from our Investment Strategy Committee

October 26, 2026

Real Assets Spotlight: Can commodities weather higher interest rates? 2

- Higher interest rates raise the hurdle for commodities, but history suggests they do not automatically derail performance, and that similar rate environments do not always produce similar outcomes.
- We remain favorable on commodities, but we expect the pace of gains to moderate as supply challenges and secular demand trends face headwinds of higher rates.

Equities: Can stocks compete with 5% Treasury yields? 4

- The equity risk premium (ERP) may turn negative as Treasury yields rise, reducing the earnings yield premium stocks have offered over the last 25 years.
- A negative ERP is not inherently bearish: The ERP crossed below zero during the 1990s many times as the S&P 500 Index produced strong returns.

Fixed Income: France's bond selloff sends a warning to global investors 5

- France shows how political division and rising government debt can push bond yields higher and prices lower. Similar pressures could keep other developed-market bond yields volatile.
- We remain unfavorable on Developed Markets (DMs) Ex-U.S. Fixed Income. Generally lower yields provide less income to offset growing fiscal and political risks.

Alternatives: Navigating Private Equity’s uneven recovery 6

- Private equity continued its uneven recovery through the third quarter, with strong headline activity driven by significant concentration in artificial intelligence (AI) and large deals.
- We believe higher rates could raise financing costs and constrain exits, which reinforces our preference for secondaries, growth equity, and small- and mid-buyouts.

Current tactical guidance 7

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

Real Assets Spotlight

Mason Mendez

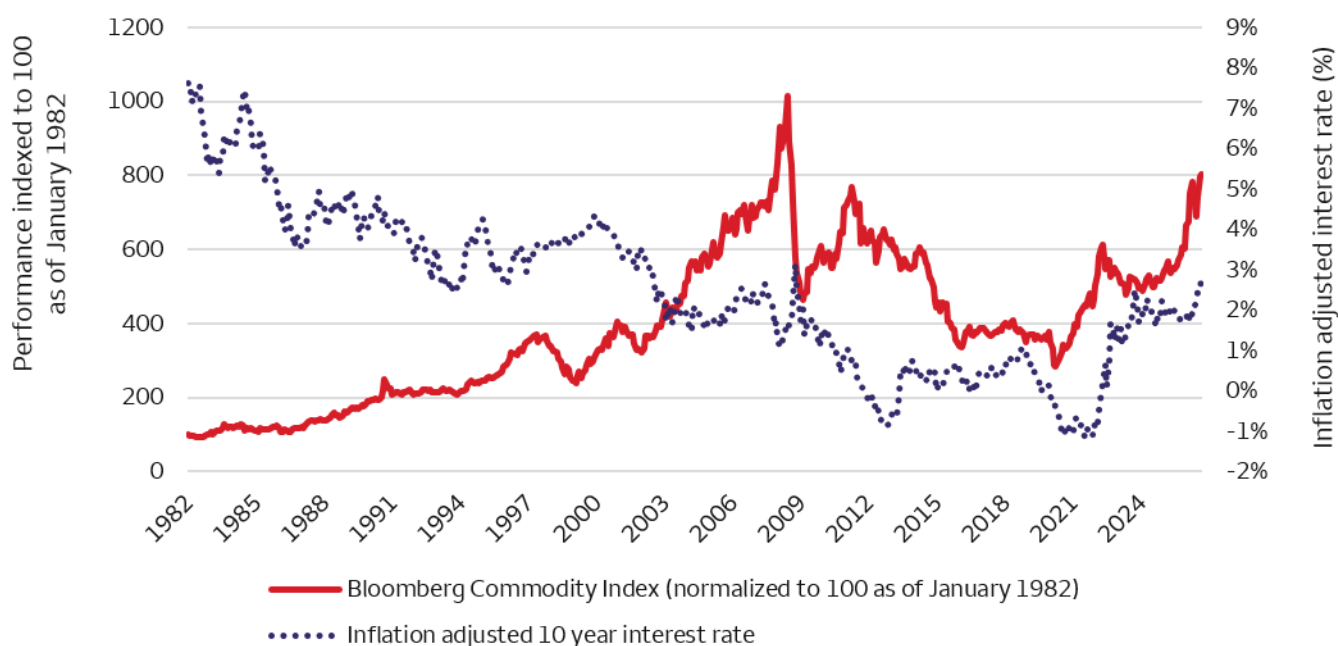
Global Real Assets Analyst

Can commodities weather higher interest rates?

Higher inflation adjusted interest rates are typically viewed as headwinds for commodities, yet commodities (measured by the Bloomberg Commodity Index) continue to rise to multi-year highs, suggesting that the relationship may not always be straightforward. History shows that similar interest-rate environments can produce very different commodity returns. Although commodities are sensitive to rates, economic growth and shifts in supply and demand can outweigh those effects.

That distinction is particularly relevant this year, with commodity prices rising 35% year-to-date, as of October 20, even as the 10-year inflation adjusted Treasury yield rose to multi-year highs of 2.9%. At a glance, this performance seems at odds with history, which suggests that over the long run higher or rising inflation adjusted yields should coincide with weaker commodity prices (see Chart 1).

Chart 1. Commodities versus inflation adjusted interest rates



Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data is from January 1982 - September 2026. The Cleveland Fed's real 10-year rate was used from January 1982 - March 1997, from April 1997 - September 2026 U.S. Generic Government TIPS yields were used for the real interest rate. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

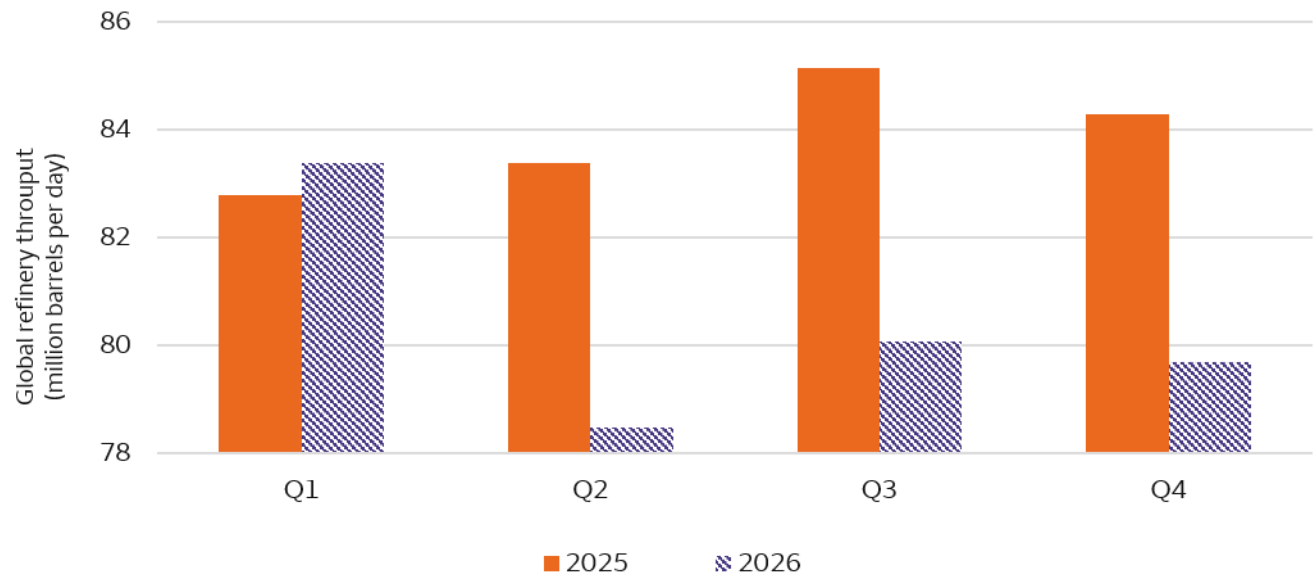
Even so, while the level and direction of real yields over the long run correlated negatively with commodity returns, year-to-year performance did not always follow a similar path and there have been periods of decoupling (see Chart 1). That dispersion reinforces an important takeaway — similar interest-rate environments have not always produced similar commodity returns. Instead, economic activity, expanding industrial activity, and tight supply dynamics have at times outweighed the pressure of higher rates.

Today, we see similar themes as economic activity has remained firm. U.S. real gross domestic product (GDP) grew at a 2.2% year-over-year in the second quarter, and we expect this strength to carry into 2027 with our U.S. real GDP forecast of 2.2%. While manufacturing activity continues to expand rising to its strongest reading since 2022,

as shown by September’s S&P Global U.S. Manufacturing Purchasing Managers’ Index (PMI). Abroad, Eurozone Composite PMIs also reached a three-and-a half year high, and China’s official factory measure returned to expansion territory.

That firm demand is running up against supply constraints in commodity markets. In energy, Middle East exports have improved, but the recovery remains uneven with 40% of exports bypassing the Strait of Hormuz through fragmented routes and disruption risks still lingering. Importantly, while crude oil flows are recovering, refining activity — which turns crude oil into usable fuels — remains significantly hindered. Damage to Middle East and Russian refining capacity, a lack of crude availability, and export restrictions have all kept global refinery runs well below 2025 (see Chart 2). Additionally, multi-year low inventories for both oil and fuels must be replenished, adding further pressures. Even as oil flows improve, these refining constraints will likely keep fuel prices elevated.

Chart 2. Global refinery runs – slow to recover



Sources: Bloomberg, Bloomberg NEF (BNEF), and Wells Fargo Investment Institute. Q3 and Q4 data are BNEF estimates and forecasts. Data as of October 20, 2026. Q1 = first quarter. Q2 = second quarter. Q3 = third quarter. Q4 = fourth quarter. **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.**

Meanwhile, the AI buildout is creating strong secular commodity demand. Spending on data centers, power generation, electrical grids, and infrastructure is increasing demand for energy, copper, and other metals. Yet, mined supply remains sluggish, with the International Energy Agency estimates that copper demand could exceed supply by nearly 30% by 2035.¹

Implications for investors

Overall, higher rates raise the hurdle for commodities, but firm demand and supply constraints help explain why prices have remained resilient. Looking into 2027, we continue to favor commodities and their potential benefit as a hedge against inflation and geopolitical risks. However, we would temper expectations relative to the steep outperformance seen this year. While economic growth and secular demand themes could support prices, we do not discount the headwinds from relatively elevated inflation adjusted interest rates. However, our 2027 year-end targets do not suggest a strong rise in inflation adjusted 10-year yields from current levels (October 22), and even some moderation from recent highs. Therefore, we continue to favor commodities and would use pullbacks as opportunities to add exposure.

1. International Energy Agency, “Copper prices have hit record highs, but smelters face mounting strategic pressures,” March 2, 2026.
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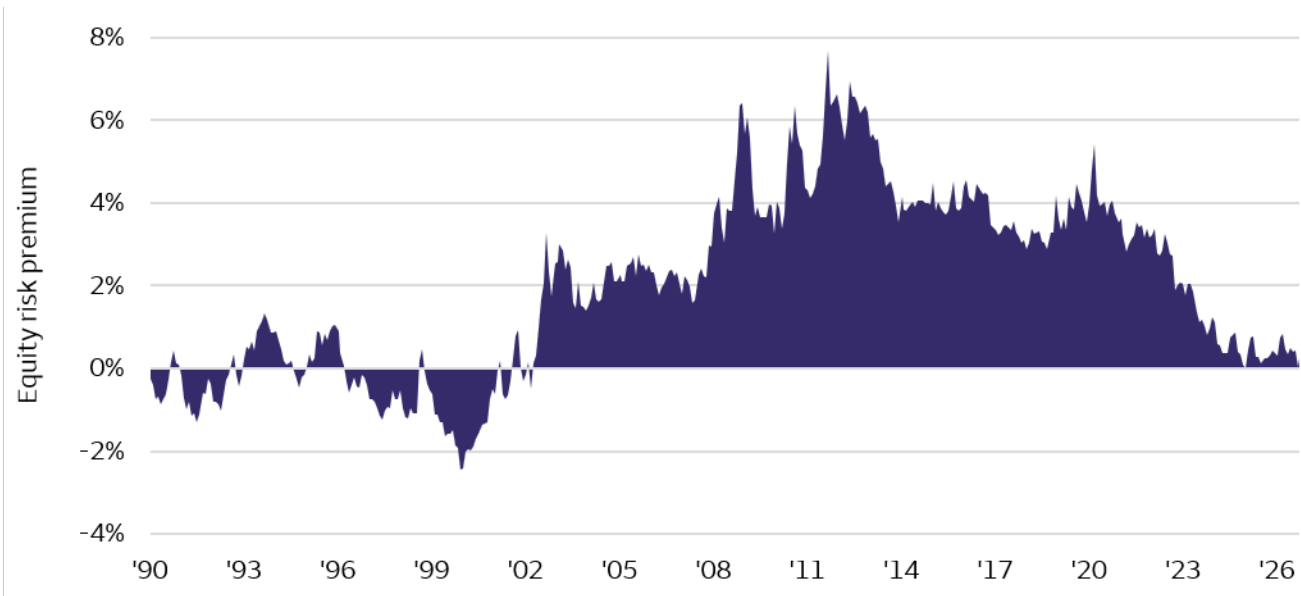
Equities

Alex Sagal
Global Equity Analyst

Can stocks compete with 5% Treasury yields?

Higher bond yields have revived a familiar question: Are bonds becoming more attractive than stocks? The 10-year U.S. Treasury yield is currently near 5%, up more than one percentage point from its February 27, 2026, low. Those higher yields mean investors can potentially earn more income from high-quality bonds than before, prompting some to reconsider the relative appeal of equities. One gauge for comparing the two is the ERP, which measures the additional return investors expect from stocks over U.S. Treasuries. It is commonly calculated by subtracting the 10-year Treasury yield from the S&P 500 Index's earnings yield. The earnings yield is the inverse of the price-to-earnings (P/E) ratio. For example, a P/E ratio of 20 implies a 5% earnings yield.

Chart 3. The equity risk premium is near its 25-year low



Sources: Bloomberg and Wells Fargo Investment Institute. Data from January 31, 1990, through October 20, 2026. The equity risk premium is calculated as the difference in the earnings yield of the S&P 500 Index and the 10-year U.S. Treasury yield. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

The ERP has fallen significantly and now sits near the low end of its 25-year range, largely because higher Treasury yields have narrowed the premium offered by equities. Our year-end 2027 target of 5.25%–5.75% for the 10-year Treasury yield creates the possibility that the ERP could fall below zero for the first time since 2002. A negative ERP may appear ominous because it means the earnings yield on stocks is lower than the yield on U.S. Treasuries. In other words, investors receive no upfront yield premium for accepting equities' greater volatility and potential losses.

Still, a negative ERP is not a warning signal, in our view. The ERP moved above and below zero multiple times during the 1990s, when the S&P 500 Index generated an annualized total return of approximately 18.2%. Unlike a bond's fixed coupon, equity returns can benefit from earnings growth, productivity gains, dividends, and share repurchases. Additionally, the ERP is not a reliable market-timing signal or proof that bonds will outperform stocks. In our view, equities remain attractive even in a higher-rate environment as corporate profits continue to grow at an impressive rate.

Fixed Income

Tony Miano, CFA, CAIA

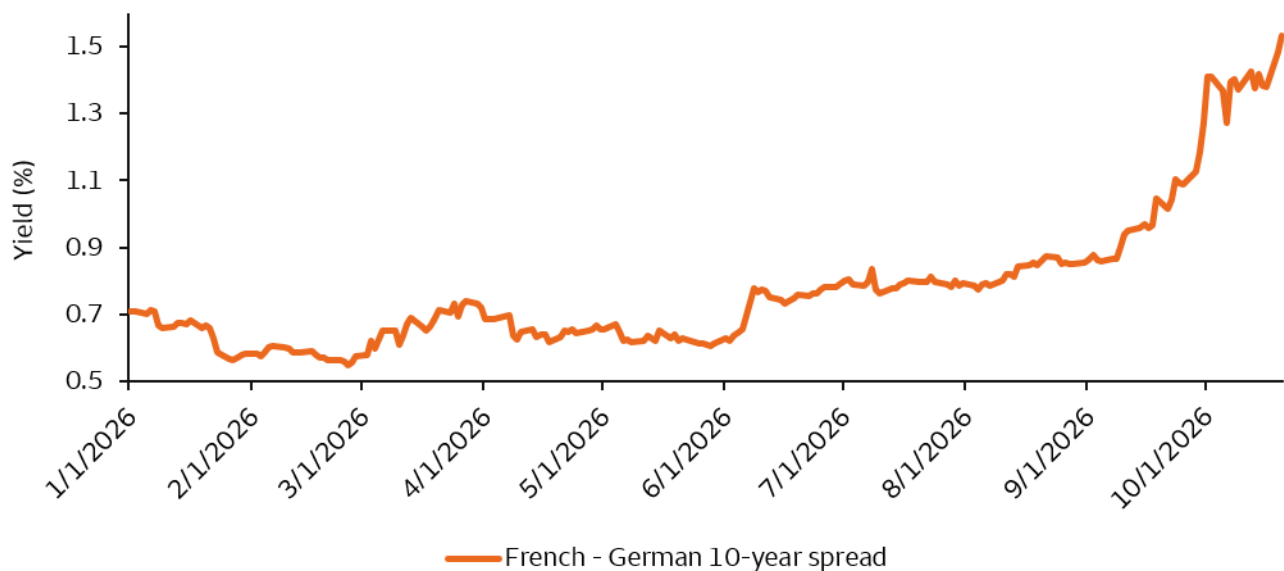
Global Fixed Income Analyst

France's bond selloff sends a warning to global investors

France's bond selloff is a warning for global investors. Rising debt and political division have pushed French yields higher and bond prices lower. The lesson extends beyond France: While default still is not on the horizon, yields may not adequately compensate investors for growing fiscal and political risks across DMs.

France, the European Union's (EU) second-largest economy, faces a difficult combination of high government spending and rising debt. The budget deficit was 5.1% of GDP in 2025, meaning the government spent more than it collected. That was well above the EU average, with government debt projected to rise further. French bond yields have risen further than other DMs (see Chart 4) amid financial concerns. Investors are demanding higher yields to compensate for the added risks. Bond prices generally fall when yields rise, weighing on French bonds.

Chart 4. French bond yields have risen significantly in 2026



Sources: Bloomberg and Wells Fargo Investment Institute, Data as of October 20, 2026. The French - German 10-year spread represents the yield of 10-year French government bonds less the yield of 10-year German government bonds. **Yields represent past performance and fluctuate with market conditions. Current yields may be higher or lower than those quoted above.**

France is the most visible example, but other developed economies face similar pressure. Political disagreements can make it harder to control deficits amid competing spending priorities. Governments are balancing higher defense and energy spending with stretched public finances. Italy plans to increase spending while Spain's November election adds political uncertainty to the budget outlook. Japanese bond yields are also rising, consistent with our outlook for DM yield volatility. Debts are still being paid, but investors are quickly reevaluating their risks, even in traditionally high-quality bonds.

We remain unfavorable on DM Ex-U.S. Fixed Income. Even if issuers are still able to pay their debts, investors should make sure the potential returns justify the risks. Yields in many DMs remain below the U.S. even as risks increase, leaving investors with less income to offset potential price declines. U.S. Treasuries also face fiscal risks and political uncertainty. However, we believe the strength of the U.S. economy should support its ability to meet debt obligations, while Treasuries' central role in global markets should sustain investor demand.

Alternatives

Chao Ma, PhD, CFA, FRM

Global Portfolio and Investment Strategist

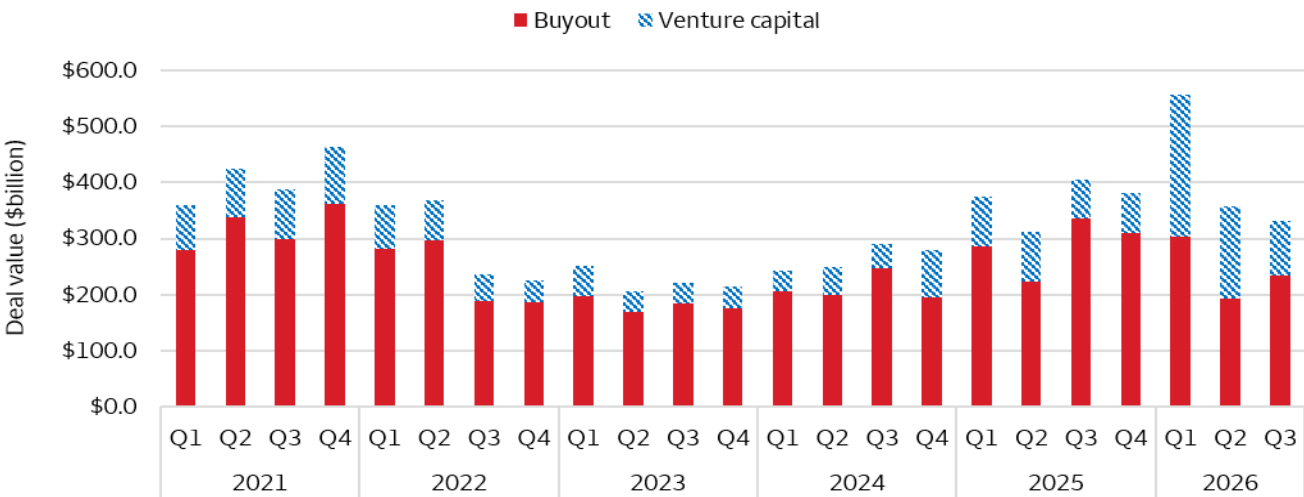
Navigating Private Equity's uneven recovery

Through the third quarter, private equity continued its gradual yet uneven recovery. Total deal value moderated during the quarter, but the number of deals increased.

Buyout deals, which focus on established companies, picked up after a softer second quarter amid concerns about supply-chain disruptions, inflation, and tighter credit conditions (see Chart 5). We believe this improvement highlights the market's broader resilience.

Venture capital, which invests primarily in startup companies, remains on pace for a record year. While third quarter deal value slowed from earlier in the year, it remained above levels seen between 2022 and 2025. Through third quarter, investment activity exceeded \$500 billion, about 45% above the previous full-year record set in 2021 (see Chart 5).

Chart 5. Private equity continued an uneven recovery



Sources: Pitchbook and Wells Fargo Investment Institute. Data as of September 30, 2026. Q1 = first quarter. Q2 = second quarter. Q3 = third quarter. Q4 = fourth quarter. **Past performance is no guarantee of future results.**

However, beneath the strong headline numbers, the market remains highly concentrated. For example, AI-related startups captured more than 80% of U.S. venture capital deal value through third quarter, while the largest 5% of deals accounted for roughly 75% of third quarter deal value.²

We believe the slow exit environment has contributed to this concentration. There are nearly 1,000 unicorns (i.e. startup companies valued at over \$1 billion) with a combined \$5.7 trillion valuation, while only 18 venture capital-backed companies went public during third quarter, leaving a large backlog of companies seeking potential exits.²

Looking ahead, we believe the economic environment and the direction of interest rates remain important. Higher rates could increase financing costs and continue to limit exit activity. Against this backdrop, we favor secondaries, which help generate liquidity, as well as higher-quality areas such as growth equity and small- and mid-buyouts for qualified investors.

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. Pitchbook, “Venture Monitor,” October 7, 2026.
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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 26, 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. 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 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.

Secondary investments are interests in existing private equity funds that are acquired in privately negotiated transactions after the end of the private equity fund's fundraising period. Typically these funds have portfolios of existing investments as well as capital available for new investments. 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.

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 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.

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

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.

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.

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 20, 2026.

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