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Investment Strategy



Weekly guidance from our Investment Strategy Committee **November 2, 2026**

Asset Allocation Spotlight: No single playbook for Federal Reserve interest rate hikes 2

- Looking beyond the direction of rates, we believe economic growth, valuations, and fundamentals are just as important in shaping market outcomes.
- Rather than making broad portfolio shifts in anticipation of higher rates, we believe investors can focus on diversification and selectivity, with an emphasis on quality and attractive valuations.

Equities: Financials' role in the Artificial Intelligence (AI) buildout 4

- AI investment is creating significant financing needs beyond the Information Technology sector. We believe banks and alternative asset managers are increasingly positioned to help provide that capital.
- Investors looking for potential AI beneficiaries may want to look beyond chipmakers and technology companies. Financial firms involved in financing data centers, computing capacity, and related infrastructure could also participate in the buildout.

Fixed Income: De minimis tax may be an issue for some munis 5

- Market weakness may leave more municipal bonds trading at discounts and potentially subject to the de minimis tax rule.
- Investors that are concerned about the de minimis tax rule can look to swap into or add premium coupon bonds.

Real Assets: Rates versus fundamentals across the Real Estate sector 6

- Real estate investment trusts (REITs) are contending with a challenging interest-rate and Treasury-yield backdrop, even as property-level fundamentals have been generally solid.
- While we remain unfavorable on the Real Estate sector, we see meaningful sub-sector variation related to property-level fundamentals, and secular trends.

Alternatives: Macro – Discretionary: Navigating shifting currents 7

- Macro - Discretionary sub-strategies have historically provided diversification during market stress while also delivering attractive returns during the recent period of strong equity performance.
- Consider an allocation to Macro - Discretionary sub-strategies to enhance portfolio diversification, strengthen resilience, and potentially improve risk-adjusted returns amid evolving market conditions.

Current tactical guidance 8

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Asset Allocation Spotlight

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Global Asset Allocation Analyst

No single playbook for Federal Reserve interest rate hikes

Football season is underway, and coaches are once again turning to their familiar playbooks. The plays may not change much from season to season, but the game plan does, shaped by the opponent, field position, and circumstances of each game. We think investors face a similar challenge with Federal Reserve (Fed) rate-hike cycles. Although each cycle may feature familiar forces, relying on the same playbook every time can overlook the unique conditions shaping each cycle.

The Fed has been one of many focal points for investors in 2026, and the path of monetary policy is likely to remain in focus heading into 2027. Although the basic mechanical actions of the Fed repeat cycle to cycle, the market outcomes do not. Through the last six completed hiking cycles, leadership rotated among developed markets DM ex-U.S. (DM), emerging markets (EM), and commodities, showing investors should not rely automatically on any single asset-class to outperform others.

We believe the key for investors is to avoid getting caught up in the headlines or concentrating their portfolio on a rate-hike or rate-cut strategy. Instead, we favor approaching each cycle independently, much like a coach relies on players with different strengths to prepare a team for varying game conditions. For investors, that means utilizing multiple asset classes that can play different roles as market conditions change, helping position portfolios for a range of outcomes a new rate cycle may bring.

Rates alone do not determine portfolio returns

The Federal Open Market Committee sets the target range for the federal funds rate, which influences interest rates across the economy, notably the prime rate and the rates on credit cards and auto loans. Raising the target generally increases borrowing costs and slows demand, while lowering it makes borrowing cheaper and can stimulate spending and investment.

Investors may be tempted to expect higher rates to weigh on bond returns while constraining upside for equities, and that may be the case, if the bond market does not believe that policy makers will raise rates enough to tame inflation. But the answer to that question and other conditions that shaped the last cycle may not define the next, and history suggests that the direction, timing and sizes of the rate increases collectively influence asset-class outcomes.

Asset-class leadership varied considerably across the past six completed hiking cycles (see Table 1). EM led during three periods, commodities during two, and DM during one. U.S. stocks, meanwhile, generated positive returns in all six cycles, illustrating that Fed tightening has not necessarily coincided with negative equity returns.

The range of outcomes within individual asset classes was also substantial:

- U.S. stocks: approximately 3.0% to 20.1%
- U.S. bonds: approximately -4.3% to 7.0%
- Commodities: approximately -4.8% to 35.6%
- DM ex. U.S.: approximately -4.2% to 18.3%
- EM: approximately -18.8% to 65.8%

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Table 1. Annualized asset returns during Fed tightening cycles

Tightening cycle	First hike	Final hike	U.S. stocks	U.S. bonds	T-bills	Commodities	Developed markets ex. U.S.	Emerging markets	Best performer
2022–2023	16-Mar-22	26-Jul-23	5.2%	-4.3%	3.1%	-4.8%	6.5%	0.3%	Developed markets ex. U.S.
2015–2018	16-Dec-15	19-Dec-18	8.7%	2.0%	0.9%	2.3%	4.2%	9.9%	Emerging markets
2004–2006	30-Jun-04	29-Jun-06	7.6%	2.8%	3.0%	12.4%	18.3%	33.3%	Emerging markets
1999–2000	30-Jun-99	16-May-00	9.1%	1.6%	5.3%	35.6%	17.1%	9.7%	Commodities
1994–1995	04-Feb-94	01-Feb-95	3.0%	-1.6%	4.4%	10.4%	-4.2%	-18.8%	Commodities
1988–1989	30-Mar-88	17-May-89	20.1%	7.0%		15.4%	17.4%	65.8%	Emerging markets
Annualized return over last 30 years			10.3%	4.1%	2.3%	3.0%	6.3%	6.8%	

Sources: Bloomberg, Wells Fargo Investment Institute, and the Federal Reserve Bank of St. Louis, data as of October 27, 2026. U.S. stocks = S&P 500 Index; U.S. bonds = Bloomberg U.S. Aggregate Bond Index; T-bills = Bloomberg U.S. 1–3 Month Treasury Bill Index; Commodities = Bloomberg Commodity Index; Developed markets ex. U.S. = MSCI EAFE Index; Emerging markets = MSCI Emerging Markets Index. Tightening-cycle returns are annualized using compound annual growth rates and the first available observation on or after the first hike through the last available observation on or before the final hike. Index data becomes available beginning December 31, 1991, for T-bills. For U.S. stocks, S&P 500 total-return data is used beginning September 11, 1989; S&P 500 price-return data is used for the earlier period when total-return data is unavailable. The 30-year comparison uses the first available observation on or after October 27, 1996, through the last available observation on or before October 27, 2026. An index is unmanaged and not available for direct investment. **Past performance is not a guarantee of future results**.

Although the direction of Fed policy was similar across each period, the direction and magnitude of the policy rate changes were not. Past cycles show that these determinants of Fed policy can be difficult to predict, making diversification based on an investor's time horizon and risk tolerance important when preparing for a range of possible outcomes.

Investment implications: Diversification is preparation, not prediction

For investors, we believe another tightening cycle should not automatically trigger a retreat from risk assets or a major shift in portfolio strategy. History shows that rising rates can coexist with positive investment returns, although results have varied considerably across asset classes. That history reinforces the importance of investors being selective in their investment process.

Within equities, continued economic and earnings growth should help offset the valuation pressure from higher rates. We favor U.S. large-cap equities, particularly high-quality companies with durable earnings and strong balance sheets that are well positioned for elevated borrowing costs and narrower market leadership. Abroad, we favor EM over DM, supported in part by their exposure to the AI investment theme. Within fixed income, we favor U.S. short-term fixed income, where attractive yields provide meaningful income without the added interest-rate risk of longer maturities. With persistent inflation likely to prompt additional Fed rate hikes, we see little reason to reach for longer dated maturities.

Real assets provide another source of diversification, particularly as we expect inflation pressures to broaden into early 2027. We favor commodities, which can benefit from rising food and energy prices and help portfolios navigate an environment where inflation remains elevated.

Ultimately, in our view, investors do not need to predict which asset class will outperform or exactly how markets will respond to higher rates. Just as a coach prepares for different situations rather than relying on a single play, investors can build flexibility into their portfolios to prepare for whatever the next tightening cycle brings.

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Equities

Laurie Harlan Cheek
Equity Sector Analyst

Financials' role in the AI buildout

The AI investment boom is typically viewed as an Information Technology story but building the infrastructure to support AI requires tremendous amounts of capital. We believe that creates an important, and sometimes overlooked, role for the Financials sector.

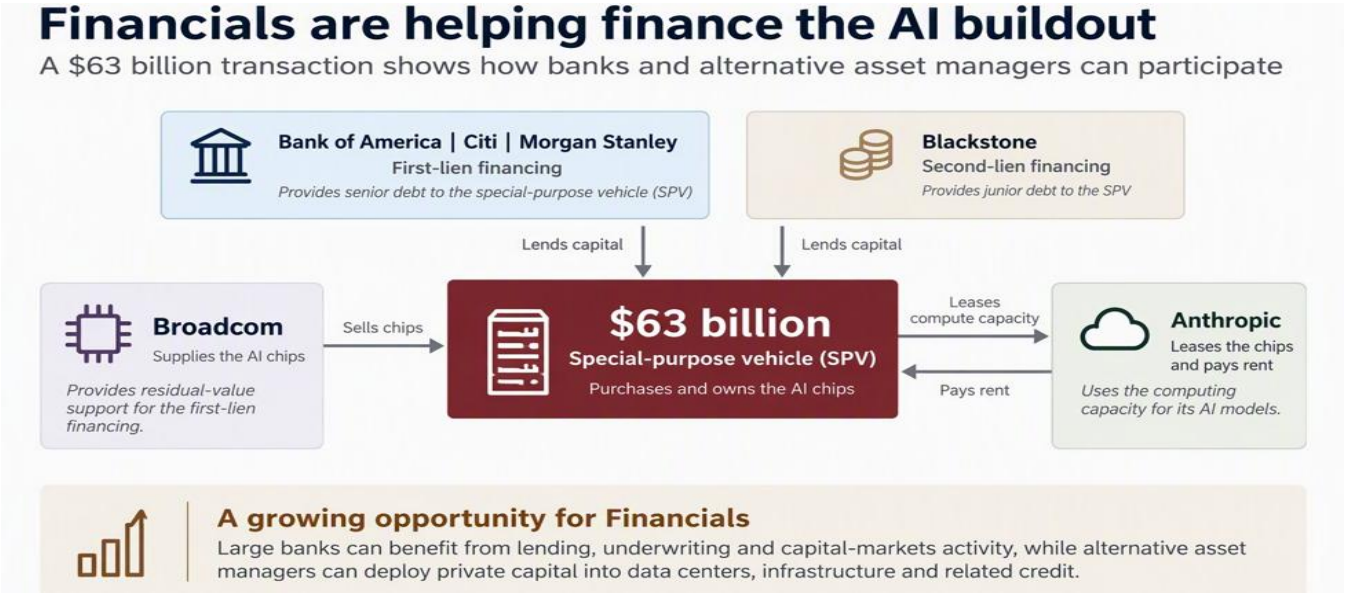
The numbers help illustrate the opportunity. J.P. Morgan estimates that capital spending by the five largest U.S. hyperscalers will reach $697 billion in 2026.[1] Those investments extend well beyond computer chips to data centers, power infrastructure, and other physical assets needed to support growing demand for computing capacity.

Financial companies are helping connect that investment with capital. On October 26, Bank of America, Citigroup, and Morgan Stanley joined Blackstone in announcing a $63 billion financing structure supporting AI computing capacity for Anthropic. The transaction combines bank financing with capital from Blackstone, illustrating how traditional banks and alternative asset managers can participate alongside technology companies in the AI buildout.[2]

While we remain neutral on Financials, we believe this broadening investment cycle creates several potential opportunities. Large banks can benefit from lending, debt underwriting, and other capital-markets activity, while alternative asset managers can deploy private capital into data centers, infrastructure, and credit. Blackstone, for example, has identified AI-related infrastructure as a major investment theme and says demand for its QTS data-center business has grown significantly.

AI investment carries risks, including uncertainty around future demand, technology changes, and the enormous amount of capital being committed. Still, we believe the financing needs created by AI represent another way for Financials to participate in the investment cycle, even if they are not developing the technology themselves.

Chart 1. How Financials are powering the AI buildout



Sources: Wells Fargo Investment Institute, Bank of America, Blackstone, Citigroup, and Morgan Stanley. Data as of October 26, 2026. AI = artificial intelligence. **This table was created with the assistance of Microsoft Copilot.**

1. J.P. Morgan, "Powering progress: Financing the infrastructure behind US data center growth," August 10, 2026.
2. Source Bank of America press release October 26, 2026 at 4:15 PM EST.

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Fixed Income

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Municipal Analyst

De minimis tax may be an issue for some munis

Rising rates, record issuance, weaker reinvestment flows, and tax-loss harvesting pushed September's Bloomberg Municipal Bond Index return to -4.36%, its worst month since 2008, according to Bloomberg. Investors may encounter more discount bonds, which often have lower coupons and longer duration than premium bonds, increasing their sensitivity to rising rates.

Although municipal bond interest is generally federally tax-exempt, appreciation on bonds purchased at a market discount may be taxable under the de minimis rule. The rule applies to bonds purchased at a market discount exceeding a quarter point for each year remaining until maturity, potentially taxing the discount as ordinary income rather than capital gains. For a $100 par bond with 10 years remaining, the allowance is $2.50 (10 years × $0.25 per year), producing a threshold price of $97.50 ($100 – $2.50). Buying below $97.50 may generate ordinary income at maturity; selling earlier could produce both ordinary income and capital gains.

Duration measures price sensitivity to interest-rate changes. Lower-coupon bonds generally have longer duration because more value is concentrated in the final payment. A five-year-duration bond would be expected to move about 5% opposite a 1% rate change. Lower-coupon bonds therefore have less price cushion and may fall below the de minimis threshold as rates rise. Investors that are concerned about the de minimis tax rule can look to swap into or add premium coupon bonds and should also consult their tax advisor.

Table 2: Hypothetical de minimis calculation

Step	Calculation	Result
1. Start with par value	Assumed redemption value	100.0
2. Calculate the allowable discount	10 years × 0.25 point per year	2.5 points
3. Calculate the de minimis threshold	100.0 – 2.5	97.5
4. Compare the purchase price	Purchase price at or above 97.5	Discount generally falls within the de minimis allowance
5. Identify potential tax treatment	Purchase price below 97.5	Market discount may be treated as ordinary income

Example: Bond originally issued at par with 10 years remaining to maturity. For illustration only. The threshold is based on 0.25 point per full year remaining to maturity. Investors should consult a legal or tax advisor regarding their individual circumstances. **This table was created with the assistance of Microsoft Copilot.**

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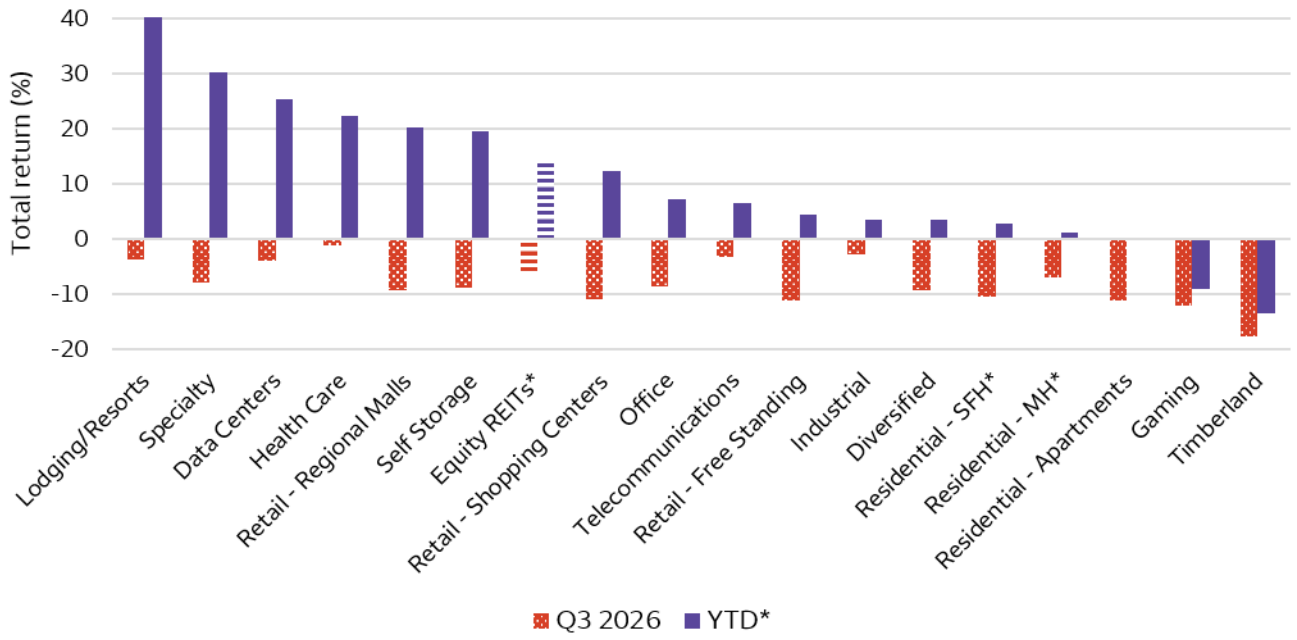
Real Assets

Amanda Martinez
Equity Sector Analyst, Real Estate (REITs)

Rates versus fundamentals across the Real Estate sector

The Real Estate sector remains caught between generally solid property-level fundamentals and a less favorable interest-rate and Treasury-yield backdrop. This dynamic can be seen in the chart below, with all REIT sub-sectors generating negative third-quarter returns while year-to-date returns show a wide range of outcomes, including meaningful gains in some sub-sectors (through October 26). In our view, this highlights the broad-based impact of rates compared to the nuanced effects of property-level fundamentals and secular trends.

Chart 2. Broad-based declines in the third quarter contrasts with a wide range of year-to-date returns



Sources: Nareit and Wells Fargo Investment Institute. *YTD = year to date through October 26, 2026. MH = manufactured homes. SFH = single-family homes. Equity REITs = FTSE Nareit All Equity REITs Index. **Past performance is no guarantee of future results.**

We remain unfavorable on the Real Estate sector as we expect a rising interest-rate environment to remain a headwind while elevated 10-year Treasury yields increase competition from fixed-income alternatives. Against this backdrop, we believe selectivity is key and favor high-quality companies with strong balance sheets and exposure to durable secular growth drivers. At the sub-sector level, we view Data Centers, senior-housing-focused Health Care REITs, and Industrial REITs as relatively well positioned given favorable demand trends tied to AI adoption, senior-housing demographics, and several logistics tailwinds.

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Alternatives

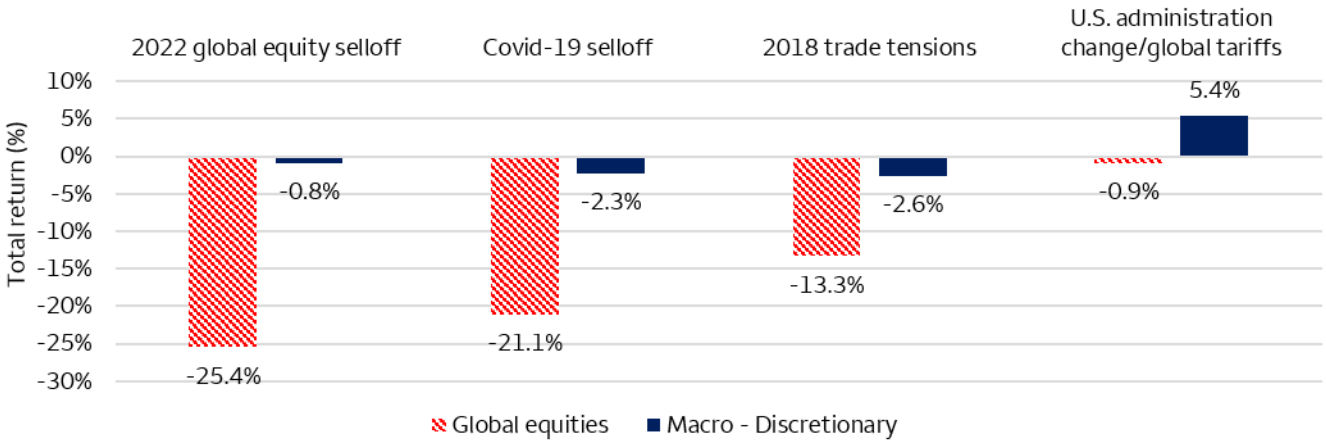
Mark Steffen, CFA, CAIA
Global Alternative Investment Strategist

Macro – Discretionary: Navigating shifting currents

Macro - Discretionary hedge fund sub-strategies are managed by portfolio managers that make active decisions based on their views of the economy, interest rates, government policy, and geopolitical events. These strategies often have the potential to perform well during periods of market uncertainty when traditional stock and bond investments face challenges.

Historically, Macro - Discretionary sub-strategies have provided valuable diversification benefits during volatile market environments. As shown in Chart 3, during several recent periods of heightened uncertainty and equity market declines, these strategies generally held up much better than global stocks, helping provide stability within a diversified portfolio. Importantly, Macro - Discretionary sub-strategies have not only performed well during difficult markets. Over the three years ending September 30, 2026, the sub-strategy generated an annualized return of 11.4%, despite a period in which equity markets also delivered strong returns.[3]

Chart 3. Macro – Discretionary has held up well during periods of heightened uncertainty



Sources: Bloomberg and Towers Watson Investment Services. Data as of October 26, 2026. Global equities represented by the MSCI All Country World Index (MSCI ACWI). Macro – Discretionary represented by the HFRI Macro – Discretionary Thematic index. Time frames shown include: 2022 Global equity selloff: December 31, 2021, to September 30, 2022; COVID-19 selloff: December 31, 2019, to March 31, 2020; 2018 trade tensions: January 31, 2018, to December 31, 2018; and U.S. administration change/global tariffs: December 31, 2024, to April 30, 2025. **Past performance is no guarantee of future results.**

With uncertainty around economic policy, interest rates, and global events remaining elevated, investors may increasingly benefit from strategies that can diversify traditional equity and fixed-income exposure. Macro - Discretionary sub-strategies can potentially play that role by providing differentiated sources of return and improving portfolio diversification. That flexibility may be especially valuable following an unusually strong run for equities. If the S&P 500 Index remains on track and finishes 2026 with a double-digit total return, it would mark four consecutive calendar years of double-digit gains. By comparison, the market has achieved five straight years of double-digit returns only once since 1928, from 1995 through 1999. That historic streak ended in 2000 as the technology bubble began to burst.

Given the significant influence that economic, policy, and geopolitical developments have had on markets in recent years, we continue to view Macro - Discretionary sub-strategies favorably. We believe they remain well positioned to capitalize on evolving market opportunities while potentially helping reduce overall portfolio volatility when paired with traditional stock 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.

3. Bloomberg, data as of October 27, 2026. Referring to the total return of the S&P 500 Index over the referenced period.

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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, November 2, 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.

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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. Municipal bonds offer interest payments exempt from federal taxes, and potentially state and local income taxes. **Municipal bonds** are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income. 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.

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.

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.

This content includes material generated with the assistance of artificial intelligence.

Definitions

An index is unmanaged and not available for direct investment.

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

Bloomberg 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible.

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 Municipal Bond Index is an unmanaged index composed of long-term tax-exempt bonds with a minimum credit rating of Baa.

FTSE NAREIT All Equity REITs Index, a subset of the All REITs Index, is designed to track the performance of REITs representing equity interests in (as opposed to mortgages on) properties. It represents all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets, other than mortgages secured by real property that also meet minimum size and liquidity criteria.

HFRI Macro Discretionary Thematic Index: Strategies primarily rely on the evaluation of market data, relationships and influences, as interpreted by individuals who make decisions on portfolio positions; strategies employ an investment process most heavily influenced by top-down analysis of macroeconomic variables. Investment Managers may trade actively in developed and emerging markets, focusing on both absolute and relative levels on equity markets, interest rates/fixed income markets, currency and commodity markets; they frequently employ spread trades to isolate a differential between instrument identified by the Investment

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Manager as being inconsistent with expected value. Portfolio positions typically are predicated on the evolution of investment themes the Manager expects to develop over a relevant time frame, which in many cases contain contrarian or volatility-focused components.

Note: HFRI Indices have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and, therefore, the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI Indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. Returns of the underlying hedge funds are net of fees and are denominated in USD.

MSCI All Country World Index (MSCI ACWI) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 developed and 26 emerging markets.

MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

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.

General disclosures

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