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Investment Institute

Investment Strategy



Weekly guidance from our Investment Strategy Committee **November 9, 2026**

Fixed Income Spotlight: Higher bond yields point to the potential for longer-term returns 2

- Higher starting bond yields can give income a larger role in total return. We believe there is a strong historical relationship between starting bond yields and subsequent annualized returns over seven-year holding periods.
- High-quality bonds can offer benefits beyond income, as they may help diversify equity exposure, moderate portfolio fluctuations, and support cash-flow planning.

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- We believe the recent technology sell-off appears to reflect a reassessment of artificial intelligence (AI) spending and valuations, not a deterioration in earnings fundamentals or the durability of the AI theme.
- As we near 2027, we continue to emphasize selectivity, favoring sectors with what we believe to be more attractive valuations and viewing market pullbacks as opportunities to add to those favored sectors.

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- Diesel prices have outpaced gasoline and crude oil, raising the cost of moving goods and adding pressure to core inflation as businesses pass those costs along; tight inventories and refining constraints could limit near-term relief.
- We remain favorable on commodities broadly and neutral on energy commodities; our view is that investors may want to use pullbacks to maintain exposure to both.

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- Compared with private real estate equity, credit strategies emphasize recurring income and downside risk mitigation, supported by floating-rate loans, hard-asset collateral, and seniority in the capital structure.
- We believe private real estate credit can complement real estate equity within a diversified allocation, offering a differentiated mix of income, risk, and capital preservation potential.

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Fixed Income Spotlight

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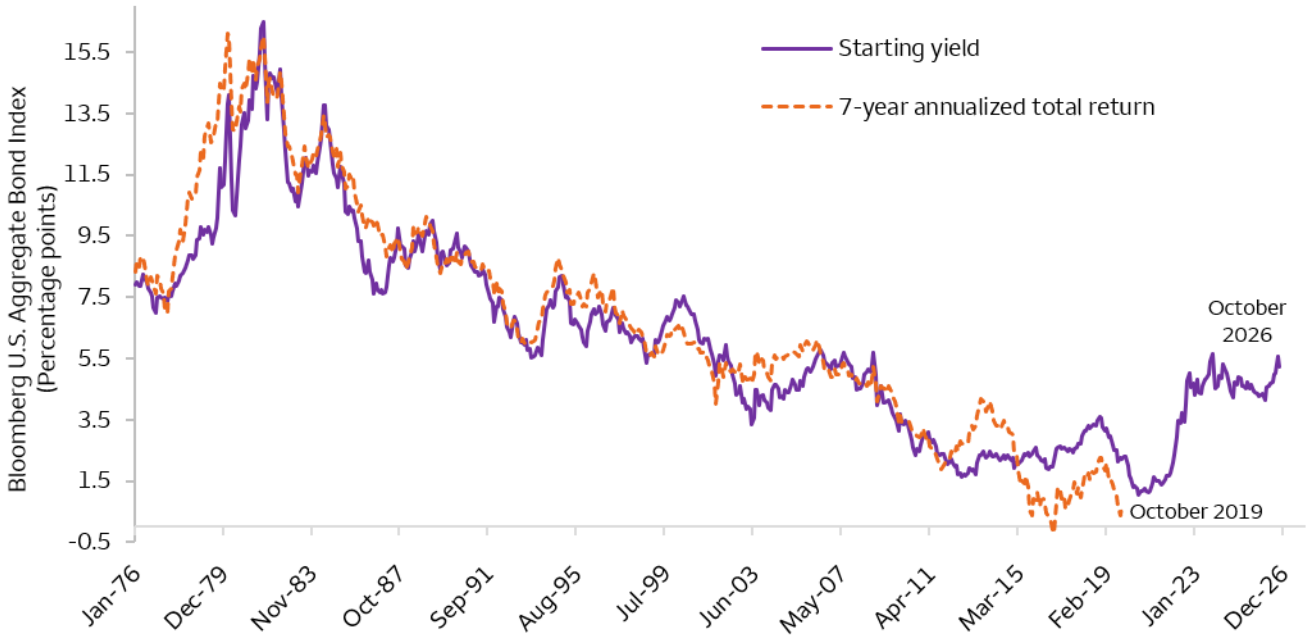
Higher bond yields point to the potential for longer-term returns

If interest rates could still rise, why own bonds now? Although further interest rate increases could pressure bond prices in the near term, we believe today's higher yields can offer more income and a potentially stronger starting point for longer-term returns. Historically, the yield available on a bond or bond portfolio at the beginning of an investment period has been closely related to subsequent longer-term returns. The yield is observed first; the return unfolds over the following years.

Higher starting yields generally give income a larger role in total return, which combines income and price changes. When market rates rise, additional income may help offset bond-price declines over time; lower starting yields provide less cushion. However, the holding period matters, as current higher starting yields may not prevent disappointing returns in the following year, particularly if rates rise further. Our historical analysis examines the relationship over longer holding periods.

Using data from the Bloomberg U.S. Aggregate Bond Index data since its 1976 inception, our analysis found a strong historical relationship between starting yields and subsequent annualized total returns. We examined 5-, 7-, and 10-year forward periods. Although the three periods produced similar results, we found that the relationship was strongest around seven years (see Chart 1).

Chart 1. Subsequent seven-year annualized returns have historically tracked starting yields



Sources: Bloomberg and Wells Fargo Investment Institute, data as of October 31, 2026. Monthly data from January 31, 1976, to October 31, 2026. Each starting yield is paired with the annualized total return earned over the following seven years. The return series is plotted at the beginning of each seven-year period to show the historical relationship. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

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The historical relationship can help frame longer-term return expectations, but starting yield is only one factor that can influence total returns and does not guarantee future results or an exact match between yields and returns. Returns over shorter holding periods are generally more sensitive to changes in market rates, while longer-term investors have more time for income to accumulate and potentially cushion price declines. For investors focused on income rather than near-term trading gains, starting yields can serve as a reference point for what bonds may deliver over several years, not what they might return next year.

Importantly, a longer investment horizon does not automatically mean that extending portfolio duration[1] is always prudent. The historical relationship between starting yields and subsequent returns does not establish that longer-maturity bonds will deliver better returns than shorter-maturity bonds. Extending duration increases exposure to price declines if rates rise further, which remains our interest rate forecast through year-end 2027. In our view, starting yields alone are therefore not a sufficient reason to extend maturities. We believe current yields in short- and intermediate-maturity bonds offer more attractive income opportunities without taking on the greater interest-rate sensitivity of longer-maturity bonds.

Beyond income, high-quality bonds may offer other benefits for long-term investors, including diversification, reduced portfolio volatility, and support for cash-flow planning.

- Diversification. High-quality bonds may help diversify equity exposure when slowing growth or market uncertainty increases demand for defensive assets. Allocations across asset classes can reduce reliance on a single market outcome, although diversification does not mean bonds will offset equity losses in every environment.
- Reduced volatility. High-quality fixed-income investments have typically been less volatile than equities and may help moderate overall portfolio fluctuations. They remain exposed to price declines, however, so this potential benefit should not be confused with eliminating risks from rising interest rates.
- Cash-flow planning. Individual high-quality bonds can have maturities aligned with anticipated spending needs. Most bonds repay principal at maturity unless the issuer defaults. Knowing when principal is expected can help investors stay invested and avoid unnecessary sales.

Our view is that investors do not need to wait for the peak in interest rates to find opportunities in fixed income. Today's higher yields can provide attractive income and a stronger starting point for longer-term returns, even if additional rate increases create near-term volatility. In our view, this supports maintaining bond exposure while remaining selective about interest-rate risk.

1. Duration is a measure of interest rate sensitivity.

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Equities

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October's rotation created opportunities

October was a volatile month for equities, particularly for AI-related stocks. The Nasdaq Composite fell 5.3%, compared with a 0.9% decline for the S&P 500 Index. We view the pullback as a reassessment of AI expectations rather than weakening fundamentals. S&P 500 Index earnings estimates continue to rise, with Information Technology among the leaders.

Several factors contributed to the technology sell-off. After we upgraded Information Technology to favorable in April, the sector rallied through September and delivered more than twice the S&P 500 Index's return. We downgraded Information Technology to neutral on September 29 as valuations became increasingly stretched. Concerns about the scale and pace of AI spending emerged first among neocloud companies and more recently spread to several Magnificent Seven companies.[2] Large hyperscalers reported mixed third-quarter results and outlined elevated capital spending that pressured near-term free-cash-flow expectations.[3]

Beneath the surface, market leadership broadened noticeably (see Table 1). The S&P 500 Equal-Weighted Index gained 5% in October, led by Energy and defensive sectors, several of which posted near-double-digit returns, compared to the 0.9% decline in the market-cap-weighted S&P 500 Index.

Table 1. September's sector leaders become October's laggards

S&P 500 Sector	September price return (%)	October price return (%)
Communication Services	4.3%	-15.2%
Information Technology	4.4%	-6.8%
Industrials	-4.5%	0.2%
Consumer Discretionary	-5.9%	3.9%
Real Estate	-6.7%	5.0%
Financials	-7.3%	5.8%
Materials	-6.9%	6.5%
Health Care	-1.0%	9.7%
Utilities	-6.1%	10.1%
Consumer Staples	-3.5%	11.4%
Energy	-2.8%	14.0%

Sources: Bloomberg and Wells Fargo Investment Institute. Data as of October 30, 2026. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

AI demand remains strong, but investors increasingly want evidence that spending can generate durable revenue, free cash flow, and attractive returns. We believe greater scrutiny reflects a focus on productive investment, not a weakening AI cycle. We expect economic growth and corporate earnings to remain supportive in 2027, making a lasting shift toward defensive leadership unlikely. Our view is that this environment does, however, reinforce the importance of selectivity.

We remain neutral on Information Technology because elevated valuations and increasing debt-funded capital spending have created a more balanced risk-reward profile. We favor sectors we expect to benefit more broadly from AI investment, including Communication Services, Industrials, and Materials. We believe recent weakness in Communication Services has created a more attractive entry point, while Industrials and Materials may benefit from continued AI-related infrastructure spending. We continue to view market pullbacks as opportunities to add to those sectors.

2. Neocloud**:** A specialized cloud provider that leases high-performance GPUs and networking infrastructure for AI training and inference. Magnificent Seven: A group of seven large technology and growth companies in the U.S. stock market.
3. Free cash flow is the amount of cash left over after all operating and capital expenditures.

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Real Assets

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Diesel remains the chokepoint

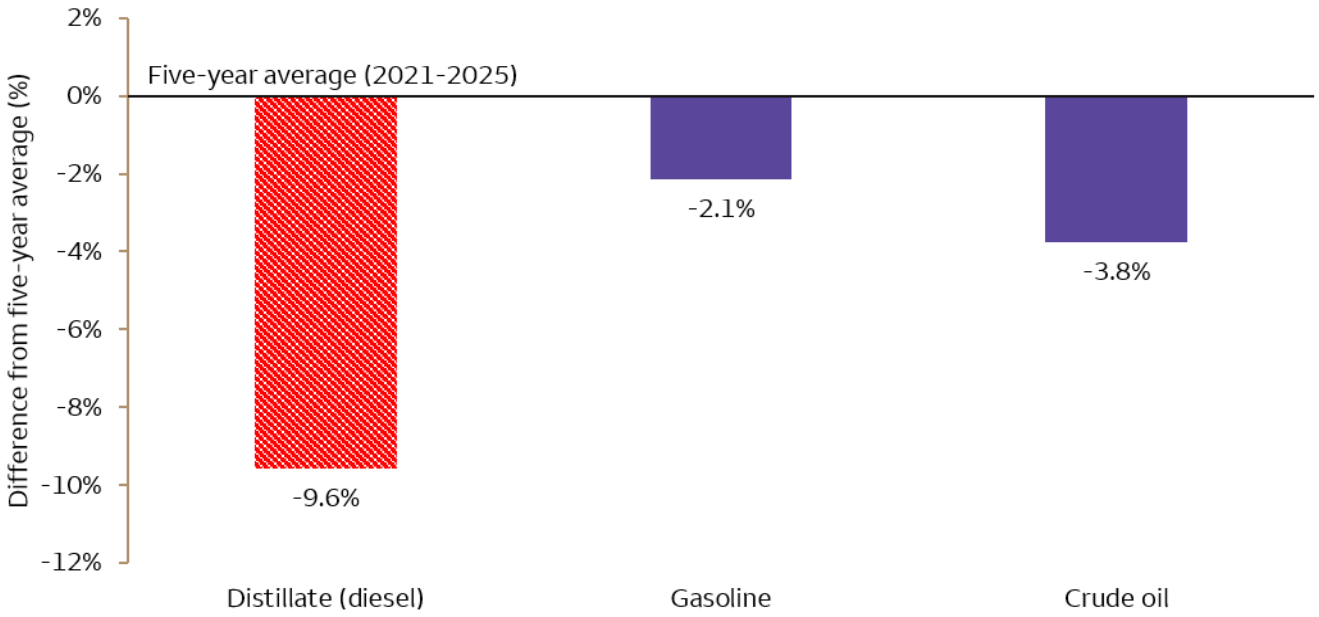
Diesel prices rose roughly 71% from October 31, 2025, through November 2, 2026, outpacing regular gasoline's roughly 37% increase and West Texas Intermediate (WTI) crude oil's 58% gain. Tight global diesel supplies and limited room to increase refinery output help explain the difference. Higher prices generally encourage more production, but capacity constraints can limit how quickly supply can respond. Having more crude available does not necessarily mean refiners can immediately deliver more diesel.

Diesel's importance extends beyond the pump. While gasoline primarily fuels passenger vehicles, diesel powers trucks, trains, and machinery that move goods, helps grow food, and build infrastructure. Higher diesel prices therefore can raise costs across the economy, potentially squeezing business profits or reaching consumers through higher prices. Businesses may initially absorb the increase, but persistent fuel costs can make that harder to sustain.

Although core inflation excludes direct food and energy prices, it does not exclude fuel costs embedded in other purchases. Diesel can therefore contribute indirectly to core inflation as businesses pass those costs along. This makes diesel worth watching even for investors who rarely fill a diesel tank.

Bottom line: Lower crude prices alone may not bring lasting relief if refining constraints keep diesel expensive. For investors, this reinforces our favorable view on commodities and our preference for using pullbacks to add exposure. Higher interest rates could temper further gains, making patience and discipline important. The goal is to manage inflation risk within a diversified portfolio, not to bet everything on continued fuel price increases.

Chart 2. Diesel faces the deepest inventory shortfall



Sources: Bloomberg and Wells Fargo Investment Institute. Inventory data through October 23, 2026.

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Alternatives

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Diversifying private real estate with credit

Private real estate investors can gain exposure through both equity and credit strategies. While equity strategies own properties and seek returns from income growth and asset appreciation, credit strategies provide financing to property owners and generate returns primarily through contractual interest payments.

Private real estate credit strategies have increasingly focused on bridge loans, which provide short-term financing for property acquisitions, refinancing, renovations, repositioning, or leasing newly constructed properties. These loans often have two- to five-year maturities and typically carry floating interest rates. Many are also non-recourse, meaning repayment is primarily tied to the underlying property and its cash flow.

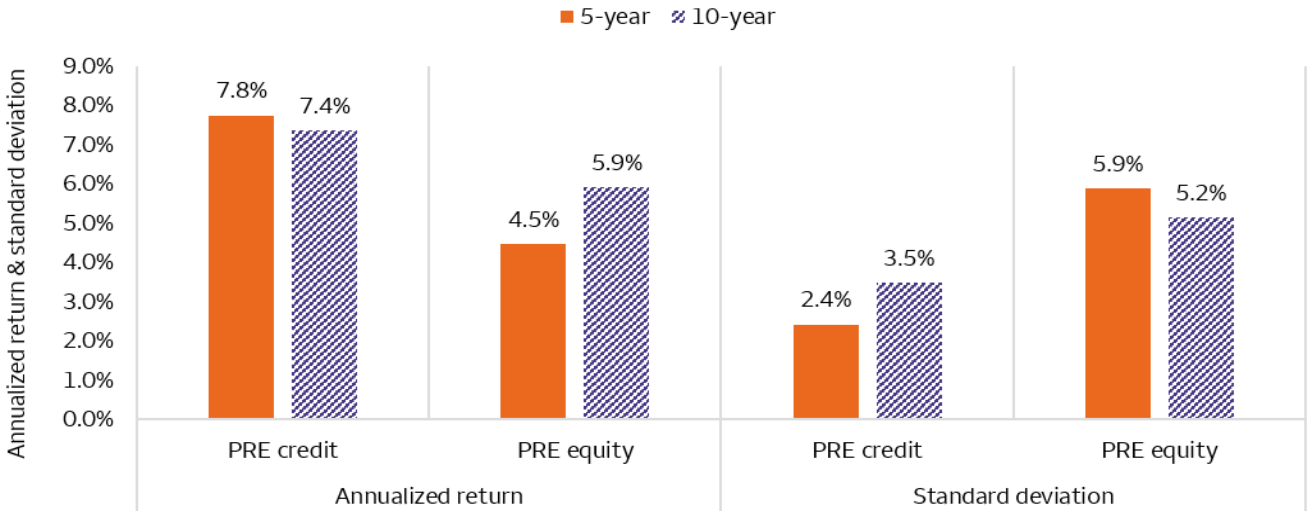
Compared with equity, credit strategies generally emphasize recurring income and downside risk mitigation. Floating-rate loans can generate higher interest income when policy rates rise, although higher borrowing costs can also increase financial pressure on borrowers. Loans are typically secured by the property and rank ahead of equity in the capital structure, meaning equity investors generally absorb losses first. However, lenders can still experience losses if property values or cash flows decline substantially.

We believe these characteristics contributed to the relative resilience of private real estate credit during the recent higher-rate environment (see Chart 3), as rising borrowing costs and declining property values challenged many equity strategies.

Nevertheless, credit and equity strategies remain influenced by many of the same factors, including property fundamentals, valuations, and capital-market conditions, while also carrying risks such as illiquidity, complexity, and leverage.

We believe private real estate credit can complement equity within a diversified allocation by providing a differentiated mix of income, risk, and capital preservation potential.

Chart 3. Private real estate credit strategies have demonstrated relative resilience in recent years



Sources: Preqin and Wells Fargo Investment Institute. Data as of March 31, 2026. PRE = private real estate. Standard deviation is a measure of volatility. Private real estate equity is represented by Preqin Global Real Estate Equity Closed-End Fund Index. Private real estate credit is represented by Preqin Global Real Estate Debt Closed-End Fund Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

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.

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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 9, 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

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

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. **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. **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. **Floating rate loans** are generally considered to have speculative characteristics that involve default risk of principal and interest, collateral impairment, borrower industry concentration, and limited liquidity. 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.

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

NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

Preqin Global Real Estate Equity Closed-End Fund Index measures the performance of global closed-end, non-listed private capital funds that Preqin classified as real estate core, core plus, value added, and opportunistic. The Index is designed to measure private capital performance on a net basis from the perspective of limited partners. Time-weighted return is derived by geometrically linking quarterly returns calculated using the Modified Dietz method. The Index is an investment-weighted pooled index. Under the frozen methodology, previously published quarters do not change after publication. The index included 863 funds with total capitalization of $1.3 trillion as of March 31, 2026.

Preqin Global Real Estate Debt Closed-End Fund Index measures the performance of global closed-end, non-listed private capital funds that Preqin classified as real estate debt. The Index is designed to measure private capital performance on a net basis from the perspective of limited partners. Time-weighted return is derived by geometrically linking quarterly returns calculated using the Modified Dietz method. The Index is an investment-weighted pooled index. Under the frozen methodology, previously published quarters do not change after publication. The index included 137 funds with total capitalization of $0.2 trillion as of March 31, 2026.

Preqin Data – Preqin Performance team collects private market fund performance data from a variety of sources to ensure a high degree of accuracy and confidence. Since 2002, the team has collected performance data from a variety of sources globally. This includes: FOIA, listed firm financial reports, public filings, and annual reports. The team receives more than 24,000 regular submissions of data from 6,900+ individual GPs annually. To ensure calculations are consistent with methodologies, Preqin provide guidelines to GPs and FOIA sources when they submit data to us. Performance Team will then review the data and cross-reference it

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against a benchmark of similar funds, as well as against other sources reporting for the same fund. The Performance Team will reach out to the GP if we require further verification to support the metrics provided. This is usually in the form of relevant pages from an LP report. Although very rare, there have been a handful of instances when Preqin wasn't confident in the data provided and chose to exclude it from our database. Throughout the process of receiving, validating, and uploading performance data, Preqin is looking to ensure its validity and consistency. Data is educational and illustrative purposes only and there are no guarantees as to accuracy of data or content.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market.

S&P 500 Equal-Weighted Index is the equal-weight version of the widely-used S&P 500 Index. The index includes the same constituents as the capitalization weighted S&P 500 index, but each company is allocated a fixed weight of 0.2% of the index total at each quarterly rebalance.

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 November 3, 2026.

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