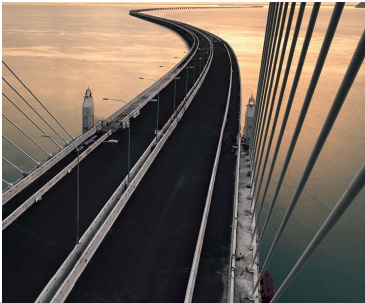


Investment Strategy



Weekly guidance from our Investment Strategy Committee April 28, 2025

Asset Allocation Spotlight: The risks of trying to time tariff turmoil2

- Missing only a handful of the best days in the market can drastically reduce the average annual return of a portfolio over time.
- During choppy markets like we have been experiencing, we believe staying invested can be more beneficial than selling into volatile markets and attempting to avoid losses.

Equities: Volatility often creates opportunity4

- Stocks are experiencing historic volatility that is largely driven by tariff uncertainty and recession fears. It is natural to be concerned about high market volatility, but our work shows that periods of high volatility have historically led to enhanced equity returns.
- We favor taking advantage of the market volatility and to position portfolios to favor quality. To that end, we prefer U.S. Large and Mid Cap Equities over U.S. Small Cap Equities as well as Developed Market ex-U.S. Equities over Emerging Market Equities.

Fixed Income: Weaker U.S. dollar may regain strength toward year end.....5

- We believe the dollar’s recent weakness has been a market reaction to U.S. growth and political concerns. Policy should continue to be volatile, but we see the U.S. avoiding recession.
- We don’t see the recent move in the dollar as part of a structural change and believe a rebound is possible if policy and economic growth concerns are resolved.

Real Assets: Commodities may provide diversification opportunity6

- After a strong start to the year, commodities got swept up in the tariff-related selloff of risk assets that engulfed markets in early April.
- We remain favorable on Commodities as an asset class, and we believe it can help diversify investment portfolios; we think further pullbacks should be viewed as an opportunity to add exposure.

Alternatives: Housing affordability low as rates remain high7

- Housing affordability remains low, yet our forecasts for lower interest rates and gradual economic growth in late 2025 provide some hope for a rebound in 2026.
- We remain cautious on residential real estate markets in the near term as low affordability levels may be a signal that markets remain overpriced, despite the current lack of supply.

Current tactical guidance8

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

Asset Allocation Spotlight

Michael Taylor, CFA
Investment Strategy Analyst

The risks of trying to time tariff turmoil

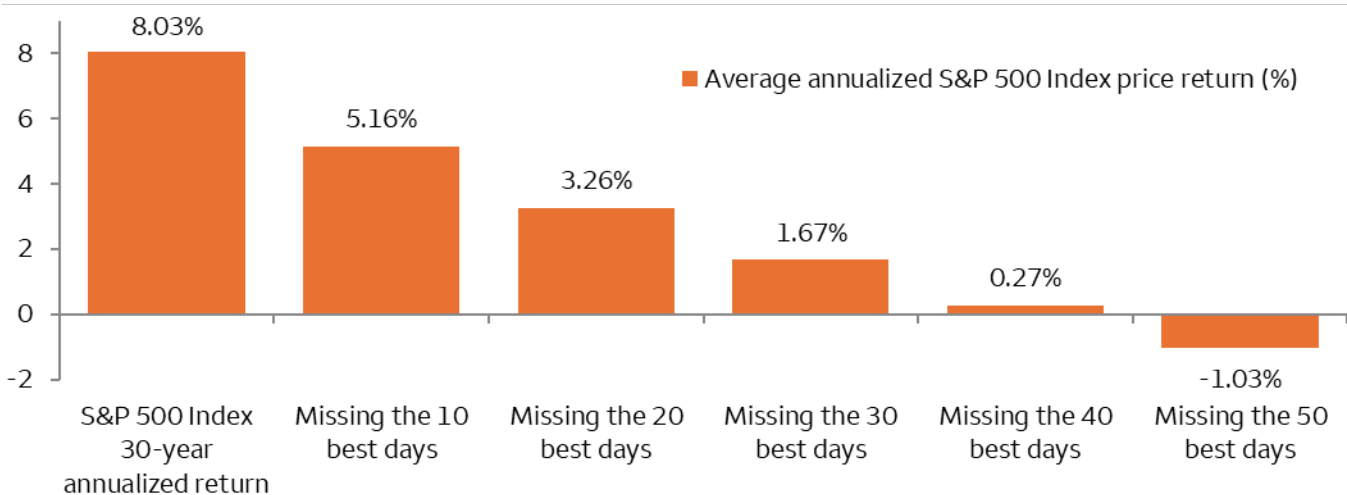
Volatility has roiled capital markets since the Trump administration imposed widespread reciprocal tariffs earlier this month. On April 3, the S&P 500 Index shed 5% (\$2.4 trillion in market value), its largest one-day selloff since 2020.¹ This market setback followed a tumultuous March that left the U.S. stock-market benchmark down by 5.6% for the month.

A week after the universal tariff announcement, President Trump ordered a 90-day pause on reciprocal tariffs for most trade partners — excluding China — to allow for trade negotiations. Financial markets appeared to welcome the reprieve as the S&P 500 Index bounced back 9.5%, its third-largest one-day advance since 1950², underscoring how large market selloffs and gains can occur within tight time frames. This episode also demonstrates the risks of trying to time tumultuous markets. Even with a 90-day pause, we believe tariff uncertainty is likely to continue fueling market volatility in the near term. Rather than react to tariff-related uncertainty, investors may be better served by focusing on longer-term implications. Below we review the risks of attempting to time market turbulence.

Missing (out on) the best market days

What if an investor could somehow remain invested in the markets during the best days, and also avoid the worst days? That would be the best of circumstances — and would result in far higher returns over the course of the holding period. But is that possible? Knowing when to enter and exit the market successfully is an extremely complicated endeavor. In fact, our research suggests that missing only a handful of the best-performing days over time drastically reduces the average annual return an investor can potentially attain by maintaining their equity investments during market selloffs.

Chart 1: Missing the U.S. equity market’s best days



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data: April 24, 1995, through April 21, 2025, for the S&P 500 Index. Best days are calculated using daily returns. For illustrative purposes only. An index is unmanaged and not available for direct investment. A price index is not a total return index and does not include the reinvestment of dividends. **Past performance is no guarantee of future results.**

1. Reuters, “S&P 500 loses \$2.4 trillion in market value, biggest one-day loss since 2020,” April 3, 2025.
2. CNBC, “Stock market posts third biggest gain in post-WWII history on Trump’s tariff about-face,” April 9, 2025.
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As the chart on the previous page shows, over the past 30 years, missing the best 30 days (based on S&P 500 Index returns from April 24, 1995, through April 21, 2025) reduced the annual average return from 8.03% per year to 1.67%, which was less than the 2.5% average inflation rate over the same period. Our research also found that over the same time period, missing the best 40 days took the average annual return down to 0.27%, and missing the best 50 days resulted in a -1.03% annual return, on average. Based on this study, equities accumulated most of their gains in just a few trading days.

Furthermore, our analysis showed that the best days in the S&P 500 Index tend to cluster amid a bear market or recession, and some of the worst days occurred during bull markets. Of the 10 best trading days in terms of percentage gains, all 10 took place during recessions and six of the 10 coincided with a bear market, with three of those days in the 2020 recession and the remaining days during the Great Recession of 2007 – 2009. History suggests that disentangling the best and worst days in the market can be quite difficult, since they have often occurred in a very tight time frame, sometimes even on consecutive trading days. In our view, these findings argue for most investors to remain invested in the equity markets even during periods of significant volatility, like we have been experiencing around the trade talks. Through regular rebalancing, investors can systematically adjust allocations to meet their long-term objectives. In our view, rebalancing and following our tactical guidance can be a better proactive approach than trying to time the market.

Choosing a better approach

It remains unclear how the tariff negotiations will play out. Volatility risk will likely remain intact as the Trump administration renegotiates tariff levels over the next few months. Trade policy, Federal Reserve (Fed) actions, economic developments, and geopolitics are likely to be the markets' main macro focal points in the near term. While the equity market continues to find its footing amid the growing risks of higher inflation and slower growth, we suggest focusing on equity quality and fixed-income selectivity. In equities, we favor U.S. over international, and in the U.S., we favor Large Cap and Mid Cap Equities. Within equity sectors, we prefer Communication Services, Energy, Financials, and Information Technology. In fixed income we are selective and favor investment-grade securities. In terms of maturities, we favor the middle range (three – seven years). We believe our favorable view on Commodities has the potential to hedge against inflationary effects.

We believe that staying fully invested in equity markets over a full market cycle can be more beneficial than selling into volatile markets and attempting to avoid the worst-performing days. Historically, there appears to be some benefit to missing both the best and the worst days — this indicates that during periods of extreme volatility, an investor may also want to avoid aggressively adding to risky assets. Instead, we suggest rebalancing — buying asset classes that have fallen below a portfolio's long-term allocations and selling those that are higher than long-term allocations — during periods of volatility. We believe regular rebalancing can help to ensure that a portfolio's allocation stays diversified and aligned with return and risk objectives.

In our view, diversification has the potential to provide more consistent returns and less downside risk through lowered volatility. Attempting to smooth the ride for investors is also important because it can reduce the temptation to abandon a diversified portfolio when one asset class is outperforming or underperforming over a given period.

Equities

Edward Lee
Investment Strategy Analyst

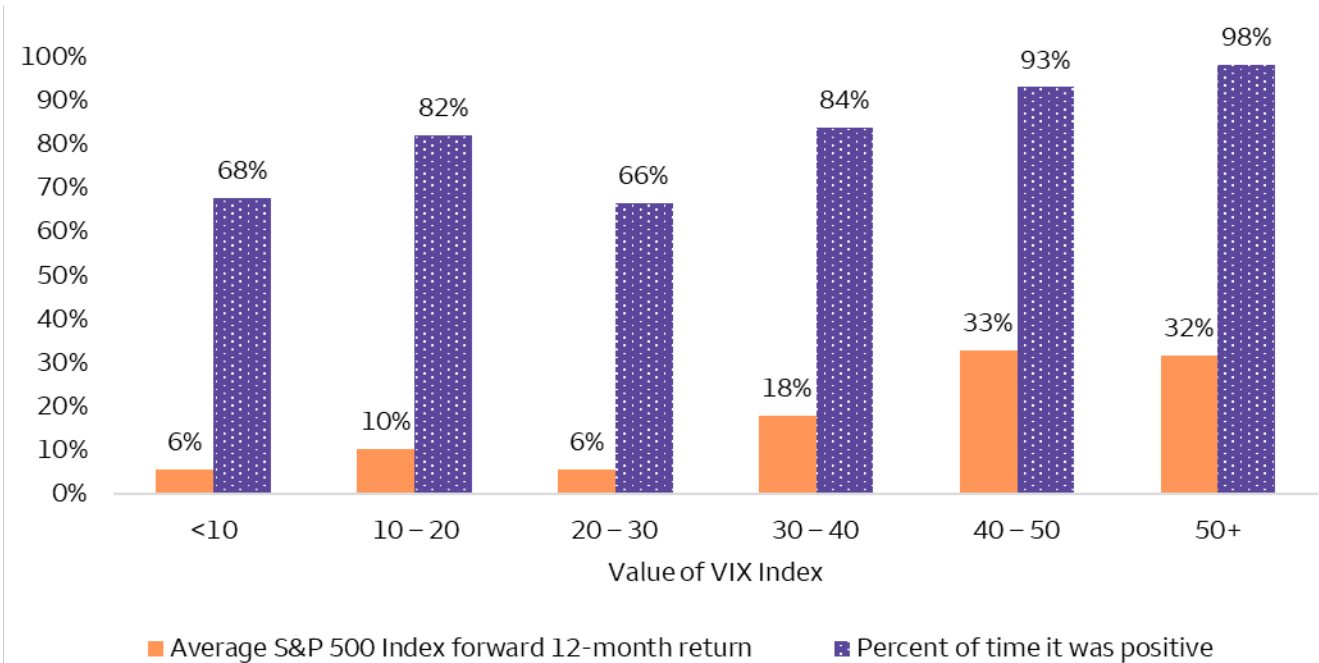
Volatility often creates opportunity

The Trump administration’s trade policies and economic concerns have been the primary drivers of market volatility recently, with the S&P 500 Index plunging over 12% the week after the tariffs were announced. With this backdrop, it is natural to be concerned, but we would advise investors to allay their fears and view the volatility as a potential opportunity.

Concern is normal, but history has taught us that periods of higher volatility have historically led to higher returns. The chart below plots the average S&P 500 Index forward 12-month performance across various stock market volatility levels, as measured by the VIX³. In it, we see that when the VIX is above 40, indicating significant market volatility, forward returns for the S&P 500 Index have averaged over 30% and have been positive over 90% of the time. The VIX reached over 60 in early April and has remained elevated.

While trade policy and economic concerns could keep market volatility elevated and weigh on returns in the near term, we expect investor focus to shift toward the potential for market-friendly policies, our expectations for a still-growing economy, and continued earnings expansion, which, in our view, could lead to improved sentiment and returns over our tactical time frame (6 – 18 months). In the meantime, we would urge investors to consider positioning portfolios for what we expect will be attractive returns. We continue to favor quality⁴ and prefer U.S. Large and Mid Cap Equities over U.S. Small Cap Equities as well as Developed Market ex-U.S. Equities over Emerging Market Equities.

High volatility has historically led to higher returns



Sources: Bloomberg and Wells Fargo Investment Institute as of April 16, 2025. **Past performance is no guarantee of future results.**

3. The CBOE Volatility Index (VIX) is an index that measures the market estimate of the expected volatility of the S&P 500 Index.

4. Quality companies have a track record of profitability, earnings stability, and healthy balance sheets.

Fixed Income

Anthony Miano, CFA

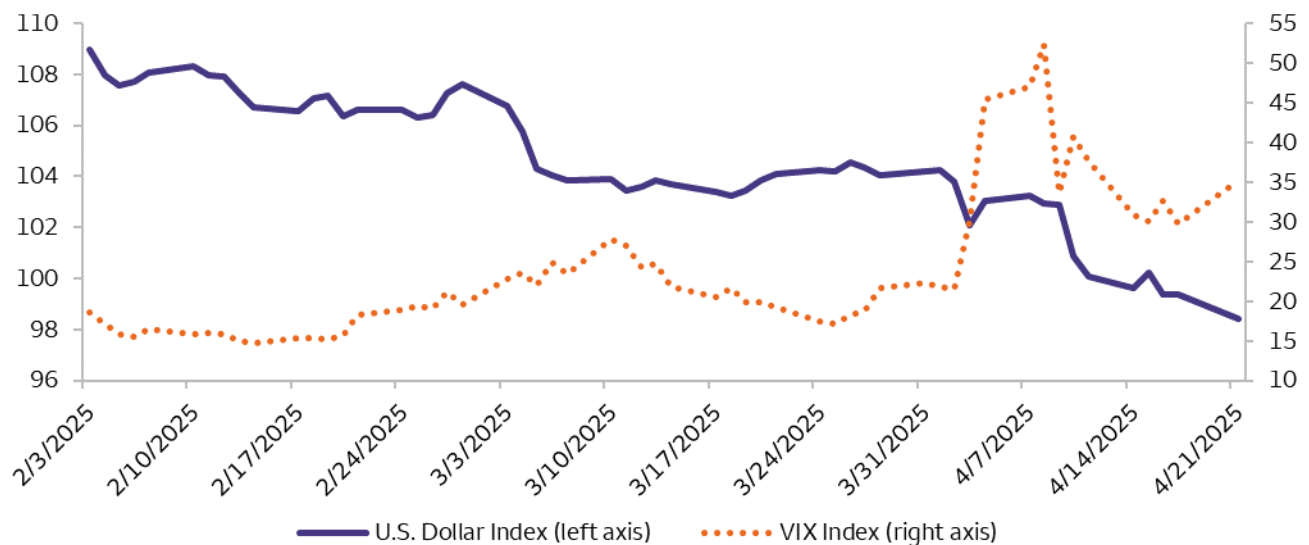
Investment Strategy Analyst

Weaker U.S. dollar may regain strength toward year end

The past few weeks has seen the emergence of a relatively unusual phenomenon — U.S. equities, long-term U.S. Treasuries, and the U.S. dollar have all fallen. The U.S. dollar has typically appreciated as a perceived safe haven during uncertain and volatile times, but this has not held so far in 2025.

In our view, the recent fall of the U.S. dollar does not reflect a serious change in its status as the global reserve currency, and we would note it is still above historical averages. Rather, we view it as a market reaction to concerns around the rising probability of a U.S. recession and fiscal-policy uncertainty where most U.S. assets, including U.S. Treasuries and U.S. equities, have been on the chopping block. The chart demonstrates that two main drops in the dollar have accompanied spikes in the VIX Index (which measures equity market volatility) in late February and early April. These spikes have also accompanied concerns on an economic slowdown, which has increased financial-market expectations of Fed rate cuts and impacted expected interest-rate differentials between the U.S. and Europe.

VIX Index and the U.S. Dollar Index (DXY)



Source: Bloomberg and Wells Fargo Investment Institute as of April 21, 2025. **Past performance is no guarantee of future results.**

However, we believe that the U.S. dollar is positioned for a rebound from current levels if economic concerns are resolved. The probability of a recession may have risen, but we believe the U.S. economy should reaccelerate from its current slowdown before year-end 2025 and that as a result, the Fed is unlikely to match market expectations for rate cuts. While we remain watchful for additional tariffs to weigh on the economy, we do not believe recent movements in the dollar represent a sustained move away from U.S.-dollar-priced assets and believe that an improving U.S. economic outlook and sustained interest-rate differentials should still push the dollar higher by year end.

Real Assets

Sameer Samana, CFA
Head of Global Equity and Real Asset Strategy

Commodities may provide diversification opportunity

Commodities had a strong start to 2025, rising 9.72% from December 31, 2024, through February 20, 2025. However, tariff-related announcements in early April increased fears of a global recession and led to commodities giving up all of their gains. Since then, commodities have recovered and remain ahead of both stocks and bonds year to date. The Bloomberg Commodity Total Return Index is up 4.80% year to date through April 21, while the S&P 500 Total Return Index is down 11.95% and the Bloomberg US Aggregate Total Return Index is up 1.42%.

We believe this outperformance in a highly uncertain environment shows that having a Commodities allocation can provide diversification to stock-and-bond-only portfolios. Other factors that should support commodities in the remainder of 2025 include our expectations that the U.S. economy will avoid a recession; that the Trump administration will pivot to pro-growth policies, like tax cuts and deregulation, in the second half; and that we have seen maximum pessimism with respect to tariffs and trade. In addition, efforts by European countries to foster defense spending and Chinese authorities to boost domestic consumption should raise the overall level of global economic growth and boost commodity demand. We would view pullbacks as opportunities to add exposure to Commodities, and we remain favorable on the Energy and Precious Metals sectors.

The chart suggests that the Bloomberg Commodity Total Return Index (252) remains in an uptrend. It should find support next at the 200-day moving average (241). Resistance sits at the 50-day moving average (254).

Commodities are slowly recovering



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from April 22, 2022, through April 22, 2025. BCOMTR = Bloomberg Commodity Total Return Index. SMAVG (50) = 50-day simple moving average. SMAVG (200) = 200-day simple moving average. RSI = relative strength index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Alternatives

Mark Steffen, CFA, CAIA

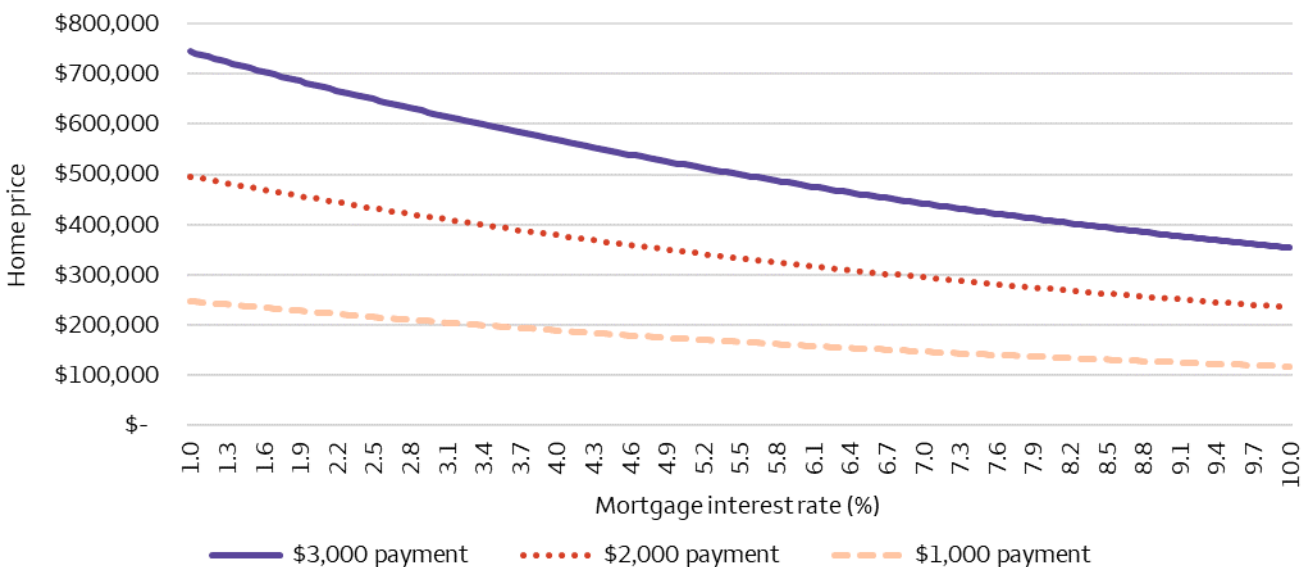
Global Alternative Investment Strategist

Housing affordability low as rates remain high

Private Real Estate investments span several property types including office, retail, industrial, and single- and multi-family residential markets. Within the single-family residential sector, housing affordability for potential buyers remains near a multi-decade low as home prices continue to rise and interest rates remain elevated. According to Redfin, a national real estate brokerage, as the median home price reached near \$423,000 in February 2025, the average income needed to comfortably afford this house stands at nearly \$110,000. On the other hand, the average income needed to afford a typical rental property stands at \$64,000. Despite solid demand drivers, including younger generations that have begun to transition out of rental properties, the lack of affordability has many would-be buyers waiting on the sidelines. Moreover, the recent tariff-induced market volatility has many pondering the potential downstream impacts such as higher-cost building materials and labor costs. While our forecast for lower rates in the second half of 2025 should bring modest relief for many would-be buyers, the heightened economic uncertainty may offset any potential benefits.

Further underscoring the impact of interest rates remaining elevated, the chart below shows that the increase in the average 30-year fixed-rate mortgage — from 2.8% in July 2021 to 6.5% in April 2025 — has a significant impact on the home price each buyer can afford. For example, a buyer in July 2021 that could afford a \$2,000 monthly payment could purchase a \$422,000 home, but today, that same monthly payment would only buy a \$307,000 home. Although the single-family residential property type continues to face near-term uncertainty, other non-core property types such as senior housing, student housing, and self-storage have continued to perform well given the more attractive supply and demand dynamics. Yet, we continue to maintain our neutral guidance on Private Real Estate overall, which includes Core, Value-Add, and Opportunistic sub-strategies.

Impact of higher interest rates on affordability



Source: Redfin. Assumes a 20% down payment, 30-year mortgage, 1.25% property tax rate, 0.5% homeowners' insurance rate, and no homeowner association dues.

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.

Tactical guidance*

Cash Alternatives and Fixed Income

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Long Term Taxable Fixed Income U.S. Short Term Taxable Fixed Income	Cash Alternatives Developed Market Ex-U.S. Fixed Income Emerging Market Fixed Income High Yield Taxable Fixed Income U.S. Intermediate Term Taxable Fixed Income		

Equities

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	Emerging Market Equities	Developed Market Ex-U.S. Equities U.S. Small Cap Equities	U.S. Large Cap Equities U.S. Mid Cap Equities	

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Private Real Estate	Commodities	

Alternative Investments**

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Hedge Funds—Equity Hedge Hedge Funds—Relative Value Private Equity Private Debt	Hedge Funds—Event Driven Hedge Funds—Macro	

Source: Wells Fargo Investment Institute, April 28, 2025.

*Tactical horizon is 6-18 months

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

Risk considerations

Asset allocation and diversification do not guarantee investment returns or eliminate risk of loss including in a declining market.

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

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. **Communication services** companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

Investing in gold, silver or other precious metals involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry.

Definitions

Bloomberg Commodity Total Return Index reflects the returns that are potentially available through an unleveraged investment in the futures contracts on 19 physical commodities comprising the Index plus the rate of interest that could be earned on cash collateral invested in specified Treasury Bills. The Index is a rolling index rebalancing annually.

CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

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

S&P 500 Total Return Index is a total return index that reflects both changes in the prices of stocks in the S&P 500 Index as well as the reinvestment of the dividend income from its underlying stocks.

U.S. Dollar Index (DXY) is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

An index is unmanaged and not available for direct investment.

Investment Grade bonds - A rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

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