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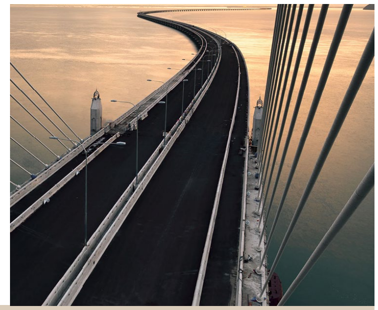


Investment Strategy

Weekly guidance from our Investment Strategy Committee **May 27, 2025**

Asset Allocation Strategy Spotlight

Veronica Willis
Global Investment Strategist

Rethinking diversification for an eventual economic recovery

Maintaining an appropriate diversified allocation that is tailored to an investor's risk tolerance, investment goals, and time horizon is crucial whether we are in times of economic expansion or a slowdown. While the economy has slowed this year, we don't expect a recession nor do we recommend that investors turn overly cautious or defensive in their portfolios. Looking forward, we believe now is the time to prepare portfolios for the economic recovery we anticipate in 2026.

Economic growth has started to slow, interest-rate expectations have shifted, and equity performance leadership has shifted from the U.S. to international. All of these factors speak to the importance of having a diversified strategy to take advantage of the current and future expected landscape.

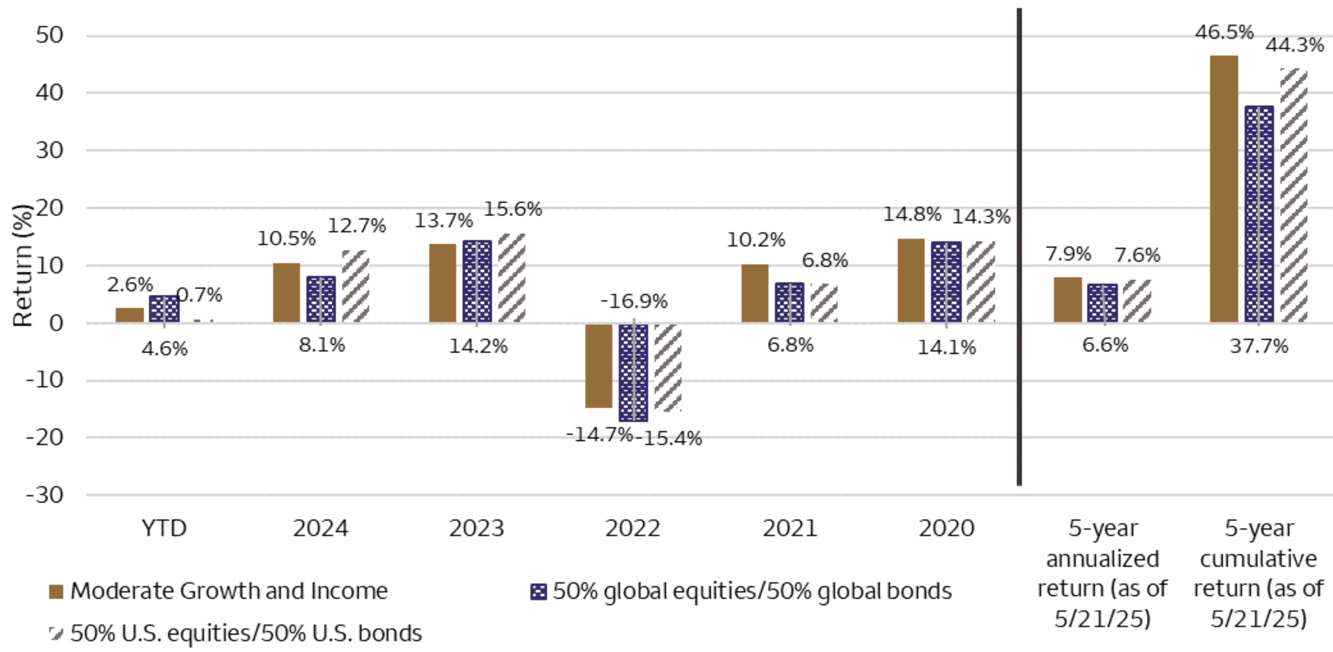
Our recommended allocations are globally diversified with a bias toward U.S. assets, but even the modest international exposure suggested in our current allocation guidance can help insulate portfolios during periods like this when the U.S. has lagged. And the bias toward U.S. assets accounts for our forward-looking view that the U.S. will eventually regain leadership, even if not to the degree that we experienced in the previous 10 to 15 years.

Chart 1 compares the balanced Moderate Growth and Income (MGI) allocation, which roughly aligns to a 50% fixed income and 50% equities breakdown, to more narrowly diversified simple blends over the past five years. Broad diversification has not been the "winner" each year, but in years like 2020, 2022, and year to date, exposure to international assets in the MGI allocation proved beneficial. Additionally, the annual returns for MGI varied less than those of both the more narrowly diversified options, highlighting the potential for a well-diversified allocation to smooth returns over time, leading to a higher annualized 5-year return for MGI compared to the 50/50 allocations, even though there are individual years that the U.S. 50/50 allocation achieved higher returns.

Given our outlook for a mild 2026 economic recovery, we currently favor U.S. Large and Mid Cap Equities. We are neutral on Developed Market (DM) ex-U.S. Equities and U.S. Small Cap Equities, meaning we favor holding a full allocation, based on the investor's long-term planned allocation. Meanwhile, we remain cautious on Emerging Market Equities (unfavorable), as we expected DM and the U.S. to be the primary beneficiaries of the recovery.

With the recent surge in DM ex-U.S. Equities, this year's market movements may have pushed those allocations higher than the desired allocation, so it may be appropriate to rebalance some of those allocations toward the U.S. equity space. We don't advocate completely abandoning exposure to international assets, and prefer that investors maintain a balance between U.S. and international, especially in this period of asset-class leadership transition.

Chart 1. Broader diversification has shined this year



Sources: © Morningstar Direct, All Rights Reserved, and Wells Fargo Investment Institute. Data from January 1, 2020, to May 21, 2025. Performance results for Moderate Growth and Income, 50% global equities/50% global bonds, 50% U.S. equities/50% U.S. bonds are calculated using blended index returns and for illustrative purposes only. Moderate Growth and Income allocation is dynamic, and changes as needed with adjustments to the strategic allocations. U.S. equities represented by S&P 500 Index. U.S. bonds represented by Bloomberg U.S. Aggregate Bond Index. Global equities represented by MSCI All Country World Index (ACWI). Global bonds represented by Bloomberg Multiverse Index. Index returns do not represent investment performance or the results of actual trading. Index returns reflect general market results, assume the reinvestment of dividends and other distributions, and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. An index is unmanaged and not available for direct investment. **Past performance does not guarantee future results**. Diversification does not guarantee investment returns or eliminate risk of loss. The risk associated with the representative asset classes and the definitions of the indexes and the blended index compositions are provided at the end of the report.

In the fixed-income space, we are unfavorable U.S. Short and Long Term Taxable Fixed Income, as we believe the short end of the curve will be most impacted by eventual rate cuts by the Federal Reserve (Fed), while longer-term rates face crosscurrents from changes in the economic and inflationary outlook and uncertainty over debt ceiling and budget deficit negotiations. We instead favor focusing fixed-income exposure on the intermediate portion of the curve (3- to 7-year maturities) to limit both the duration risk and lessen the impact of Fed policy changes.

Outside of the traditional stock and bond markets, having exposure to diversifiers, like commodities and (for qualified investors) hedge funds, is also a good way to make sure portfolios are prepared for the remainder of 2025 and 2026. Commodities historically have not tended to move in the same direction as stocks or bonds, and we believe exposure to the asset class can help cushion portfolios when either the stock or bond market (or both) moves down. We favor exposure to Energy and Precious Metals as a way to take advantage of the current commodities environment. And in alternatives, hedge fund strategies like Directional Equity Hedge and Long/Short Credit Relative Value can add value, in our view, because they should be able to participate on the upside as economic growth recovers in 2026, as well as offering the potential to provide some protection through the market dislocations and volatility that we expect throughout 2025.

Investing through the economic uncertainties can feel daunting, but we believe having a diversified allocation that includes stocks, bonds, commodities, and alternatives (if an investor is qualified) can help alleviate some of the stress around those uncertainties. Working with an investment professional to determine the appropriate allocation is a prudent way to prepare portfolios for additional volatility and potential downside events. Having that plan in place to take advantage of the overall economic themes, instead of reacting to the headlines, should also lead to greater stability in an investor's portfolio performance over time.

Equities

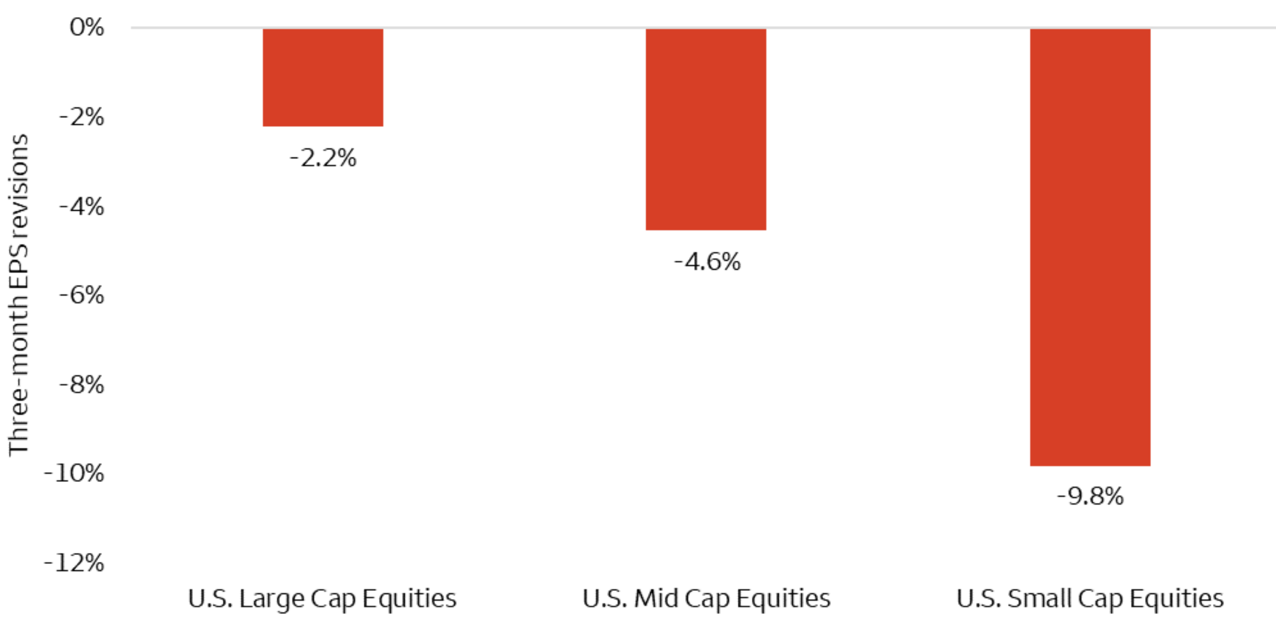
Edward Lee
Investment Strategy Analyst

Have U.S. Small Cap Equities finally turned a corner?

U.S. Small Cap Equities have performed on par with U.S. Large Cap Equities since the market bottomed on April 8, with both up around 20% from April 8 through May 20. In our view, the rally has been driven by the abatement of tariff fears; better-than-expected economic data; and an all-around solid earnings season, all of which have reinvigorated market sentiment around U.S. Small Cap Equities. On the positive side of the balance sheet is looming deregulation, lower short term interest rates and a cyclical recovery in late 2025 into 2026. But it remains the case that tariffs have been more aggressive than we initially thought, while earnings revisions continue to deteriorate (see the chart below) on higher-than-expected interest rates and tariff rates. We see these positives and negatives as roughly in balance, hence our neutral tactical rating on the asset class.

Given the headwinds faced by U.S. Small Cap Equities and our anticipated near-term economic slowdown, we continue to favor U.S. Large Cap and U.S. Mid Cap Equities, and retain our neutral rating on U.S. Small Cap Equities. Given this relative preference for U.S. Large and U.S. Mid Caps over U.S. Small Caps, and given the recent rally, we would use this opportunity to trim small cap holdings back to long term target allocations, and reallocate into large- and mid-cap equities.

2025 earnings for U.S. Small Cap Equities have been revised lower relative to its peers



Sources: Bloomberg and Wells Fargo Investment Institute. Data as of May 20, 2025. The S&P 500 Index is used to represent U.S. Large Cap Equities, the Russell Midcap Index is used to represent U.S. Mid Cap Equities, and the Russell 2000 Index is used to represent U.S. Small Cap Equities. EPS = earnings per share. An index is unmanaged and not available for direct investment.

Fixed Income

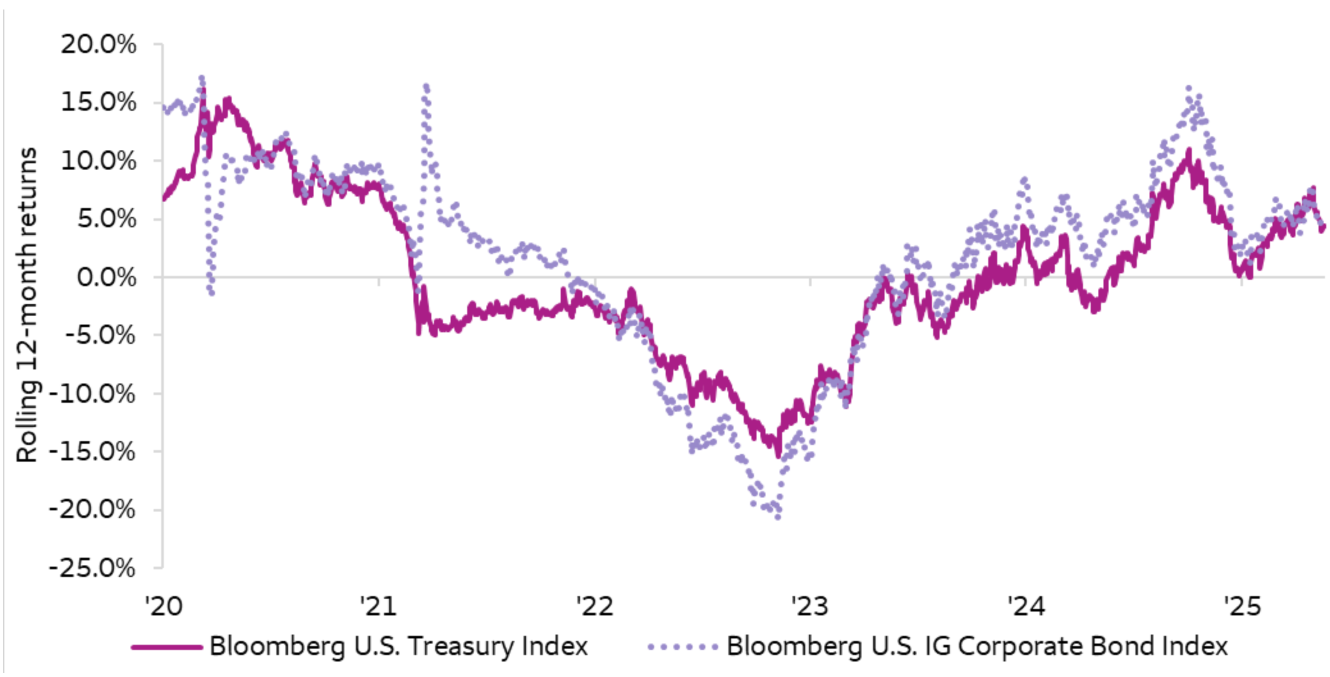
Luis Alvarado
Global Fixed Income Strategist

The role of Treasuries inside a fixed-income portfolio

Despite the Moody's credit rating downgrade on U.S. debt a little over a week ago, 10-year U.S. Treasury yields have only risen slightly. As we anticipated, financial markets had already priced in most of the rating downgrade; however, new risks are emerging. The next three months will be key and have the potential to increase U.S. Treasury market volatility as Congress attempts to pass important bills around the budget, including extending tax cuts (and adding new ones) and passing an increase in the size of the debt, commonly referred to as the debt ceiling.

These uncertainties and the threat of additional tariffs coming back into play if deals are not made during the 90-day pause have some investors wondering if they should still hold U.S. Treasuries. In our view, the large size of the U.S. Treasury market and the U.S. dollar's reserve currency status are good reasons to hold Treasuries. Also, U.S. Treasuries historically have had low correlations to equities, helping stabilize portfolios during market downturns. Currently, we maintain neutral guidance on U.S. Treasury Securities and do not believe investors need to proactively liquidate U.S. Treasury positions. However, for cash ready to put to work, we prefer investors first allocate toward IG Corporate Bonds, a sector where we hold a favorable view. Currently, not only is the yield advantage of corporate bonds relative to U.S. Treasuries evident, but corporate fundamentals also appear solid. Absent a strong earnings deterioration, we believe investment-grade companies will continue to show discipline to maintain credit quality.

We currently prefer IG Corporate Bonds over U.S. Treasury Securities



Sources: Bloomberg and Wells Fargo Investment Institute as of May 20, 2025. Daily 12-month rolling returns from January 2, 2020, to May 20, 2025. An index is unmanaged and not available for direct investment. **Past performance does not guarantee future results**.

Real Assets

Sameer Samana, CFA
Head of Global Equities and Real Assets

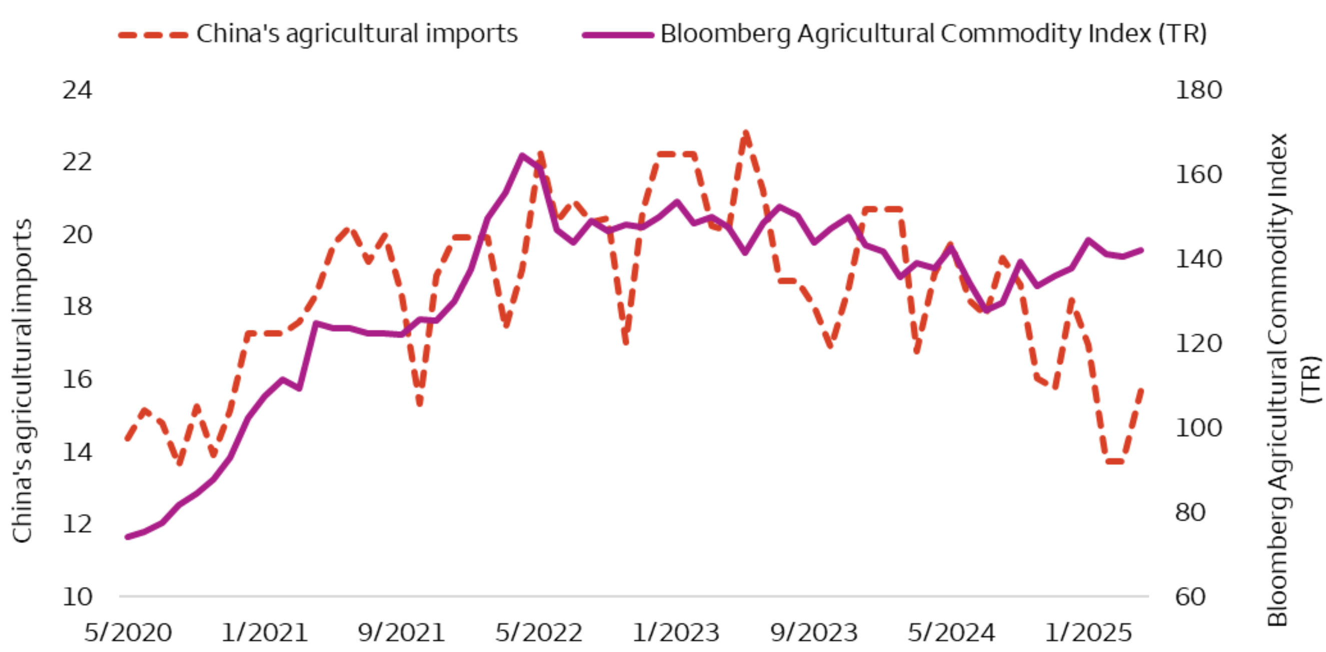
China remains key for Agricultural commodities

The Bloomberg Agriculture Commodity Subindex was up 1.5% year to date through May 19, underperforming the broader Bloomberg Commodity Index, which was up 3.8% over the same period. Typically, agricultural commodity prices tend to be less economically cyclical, given the demand for food is fairly stable. However, in the current protectionist trade environment, it has become a bargaining chip between the U.S. and China.

As seen in the chart below, China's agricultural imports sit close to five-year lows. We believe some of this is probably due to stockpiling and overall economic malaise, but given the escalation of tariff rates to prohibitively high levels by both countries in early April, we believe the impact of the trade war cannot be discounted. It should also be noted that China took a similar approach during the first Trump administration by reducing soybean imports from the U.S. and increasing imports from places like Brazil. This increased political pressure on President Trump through pain for farmers and the agricultural sector more broadly.

While both sides have agreed to ratchet down the temperature by lowering tariff rates, we believe the current uncertainty will weigh on agricultural commodities, where supplies largely remain at healthy levels. For now, we continue to maintain a neutral allocation to Agricultural sector. Our favorable-rated Energy and Precious Metals sector recommendations both have slightly better supply and demand outlooks and should feel less of an impact from the trade war in our view, barring a global economic recession.

Chinese agriculture demand remains soft



Sources: Bloomberg and Wells Fargo Investment Institute. The data range is from May 31, 2020, to April 30, 2025. China's agricultural imports are represented by the CHIVAGRI Index while the Bloomberg Agricultural Commodity Index is represented by the BCOMAGTR Index. TR is total return. An index is unmanaged and not available for direct investment.

Alternatives

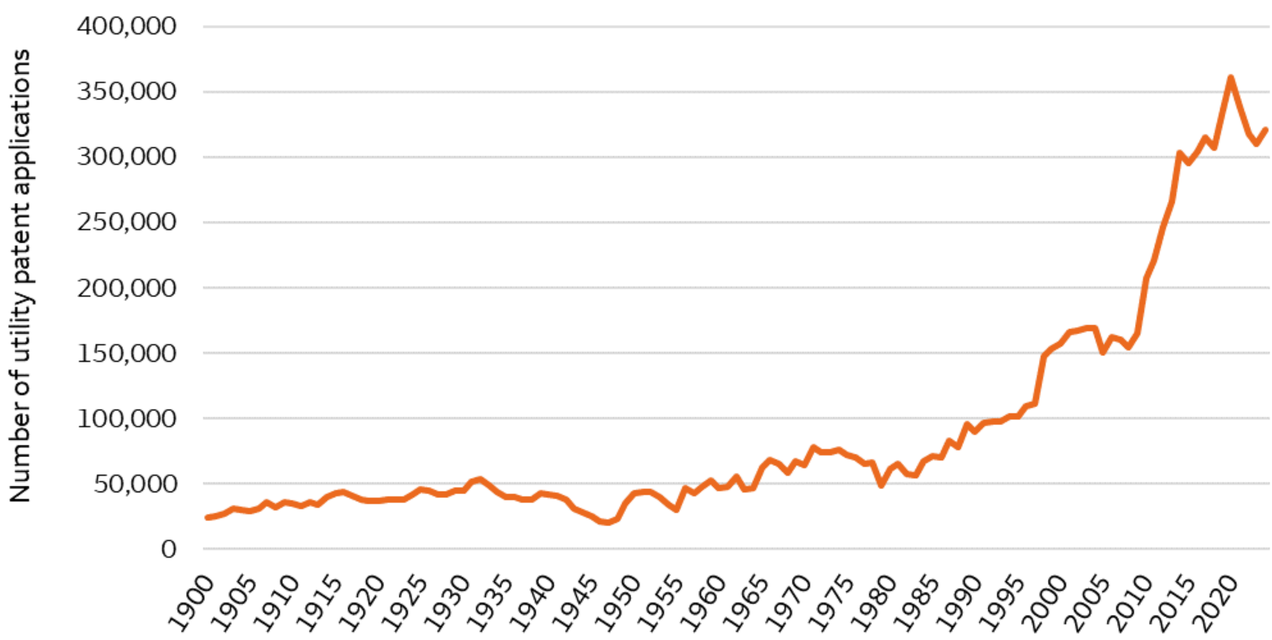
Mark Steffen, CFA, CAIA
Global Alternative Investment Strategist

Innovation remains a key driver in private markets

Venture Capital sub-strategies typically invest in companies that are early in their life cycle, often during the start-up or early-stage phase where product development and proof of concepts are areas of focus. Despite artificial-intelligence-related businesses standing out as one of the few bright spots, the broader venture-capital market has continued to lack direction. The uncertain economic outlook, higher-for-longer interest-rate environment, and a sluggish initial public offering market remain as major obstacles to a more sustained recovery. Ample dry powder (or cash available) in private-equity funds[1] and an improving economy in late 2025 through early 2026 may lay the foundation for greater levels of venture-capital activity in the year ahead, yet we remain cautious on its nearer-term outlook. Instead, we continue to favor higher-quality strategies such as Growth Equity, often characterized by companies with proven business models, significant revenue, and earnings growth.

Despite these near-term challenges that remain for the venture-capital industry, we believe innovation remains a key long-term driver for start-up private businesses. As a gauge of this innovation, the remarkable rise in the number of utility patents issued in the U.S. over the past 124 years is a clear reminder that the U.S. remains at the forefront of the quest to develop innovative products. Despite a modest retrenchment in recent years, the longer-term upward trajectory has continued to accelerate as the U.S. issued over 320,000 utility patents in 2024, more than double the number issued as recently as 2008 (see chart below). The U.S. ecosystem continues to allow innovation to thrive, which should support private-market opportunities, including Venture Capital, as the economy recovers in the years ahead.

U.S. patent activity – Utility patents issued (1900 – 2024)



Sources: U.S Patent and Trademark Office. Data shown from 1900 to 2024, as of May 23, 2025.

Alternative investments, such as hedge funds, private equity, private debt and private real estate funds are not appropriate for all investors and are only open to "accredited" or "qualified" investors within the meaning of U.S. securities laws.

1. "Venture Monitor," PitchBook, first-quarter 2025.

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, May 27, 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

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.

Allocation Composition

Moderate Growth and Income: 2% Bloomberg U.S. Treasury Bills (1–3 Month) Index, 30% Bloomberg U.S. Aggregate Bond Index, 6% Bloomberg U.S. Corporate High Yield Bond Index, 5% J.P. Morgan EMBI Global, 27% S&P 500 Index, 10% Russell Midcap Index, 3% Russell 2000 Index, 8% MSCI EAFE Index, 5% MSCI Emerging Markets Index, 4% Bloomberg Commodity Index.

50% global equities/50% global bonds: 50% MSCI ACWI/50% Bloomberg Multiverse Index.

50% U.S. equities/50% U.S. bonds: 50% S&P 500 Index/40% Bloomberg U.S. Aggregate Bond Index.

Definitions

Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements.

Bloomberg Agriculture Subindex is a commodity group subindex of the Bloomberg Commodity Index. It is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat. It reflects the return of the underlying commodity futures and is quoted in USD.

Bloomberg Multiverse Index provides a broad-based measure of the global fixed-income bond market. The index represents the union of the Global Aggregate Index and the Global High-Yield Index and captures investment grade and high yield securities in all eligible currencies.

Bloomberg U.S. Aggregate Bond Index is composed of the Bloomberg U.S. Government/Credit Index and the Bloomberg U.S. Mortgage-Backed Securities Index and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities.

Bloomberg U.S. Corporate High Yield Bond Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

Bloomberg U.S. Corporate Investment Grade Bond Index measures the investment grade, fixed rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

Bloomberg U.S. Treasury Index measures the total return US dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. The largest weightings in the index are Treasury notes with maturities of 8-10 years.

Bloomberg U.S. Treasury Bills (1-3 Month) Index is representative of money markets.

J.P. Morgan Emerging Market Bond Index (EMBI) Global is a U.S. dollar-denominated, investible, market cap-weighted index representing a broad universe of emerging market sovereign and quasi-sovereign debt.

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

MSCI EAFE Index is a free-float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

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

Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index**.**

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

An index is unmanaged and not available for direct investment.

General disclosures

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