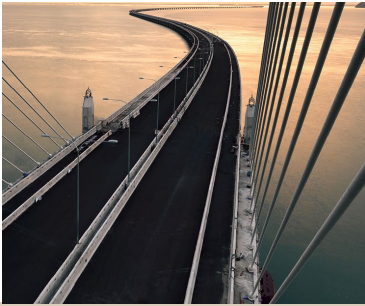


# Investment Strategy



Weekly guidance from our Investment Strategy Committee August 18, 2025

**Equities Spotlight: 2025 —A typical or atypical year? ..... 2**

- We expect stocks will follow the classic post-election year cycle, struggling to move meaningfully higher in the near term.
- To position for this outlook, we have downgraded U.S. Small Cap Equities from neutral to unfavorable and modestly trimmed allocations to U.S. Large Cap Equities, which we continue to rate as favorable.

**Fixed Income: An update on High Yield duration<sup>1</sup> ..... 4**

- Issuers have been cautious about locking in high interest rates for longer periods, especially during 2022 – 2023 when rates surged. This led to fewer, longer-dated bonds entering the High Yield (HY) index.
- Lower duration means the HY index is less vulnerable to interest rate hikes, but perhaps more sensitive to credit events.

**Real Assets: Gold consolidating at its peak ..... 5**

- Gold prices have stalled out after sharp early year gains, as initial reasons for the rally have run out of steam, and there has been a lack of new catalysts.
- We believe this consolidation is just a pause within the longer-term uptrend, and we continue to favor gold and precious metals; investors should use pullbacks to add exposure.

**Alternatives: A Macro divergence ..... 6**

- Macro Discretionary sub-strategies have significantly outperformed Macro Systematic sub-strategies in 2025 as the former has demonstrated an ability to navigate markets driven by trade policy, central bank speculation, and geopolitical tensions.
- We continue to maintain our favorable guidance on Macro Discretionary sub-strategies as we expect the category to offer diversification while attempting to capitalize on current market dynamics.

**Current tactical guidance ..... 7**

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

1. Duration measures a bond’s sensitivity to interest rate changes.

# Equities Spotlight

*“Doing the best at this moment puts you in the best place for the next moment.” — Oprah Winfrey*

**Austin Pickle, CFA**

Investment Strategy Analyst

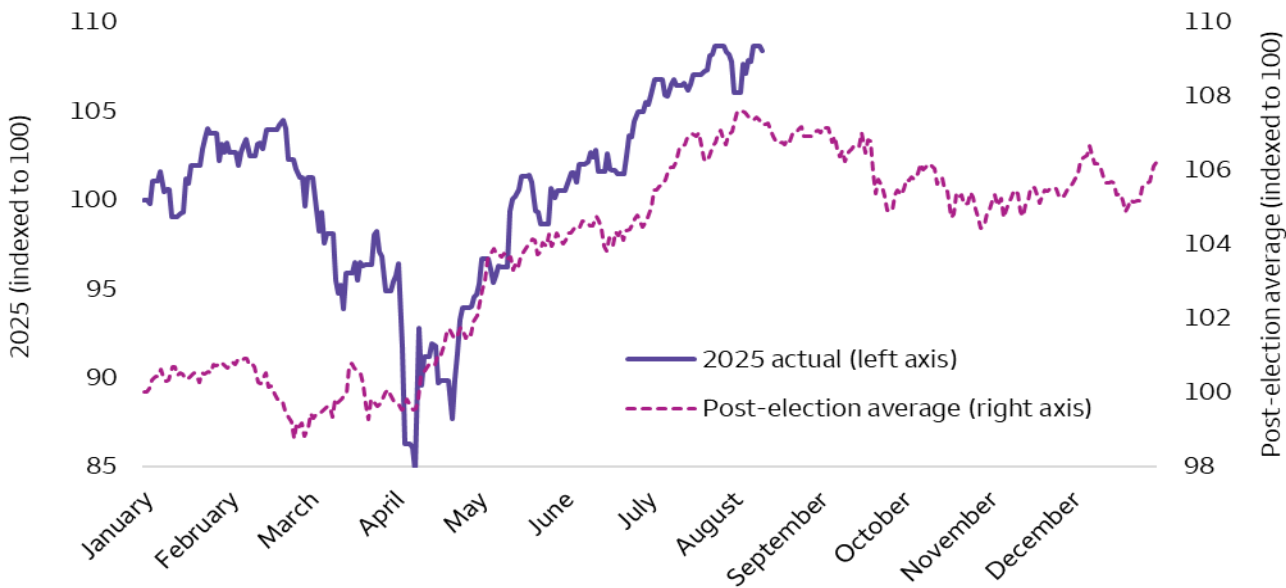
## 2025 —A typical or atypical year?

In 2025, whipsawing investor sentiment regarding artificial intelligence (AI); fiscal, trade, and monetary policy; and the economy has taken investors for the proverbial ride. While the market drivers have been unique, our analysis of the past 100 years shows that stocks to date have trended in line with the average post-election year average. Will the rest of the year track as well?

What’s typical?

Chart 1 plots the S&P 500 Index performance this year against the average performance after a presidential election year. We can see that this year’s stock market has tracked the average historical post-election year performance, as it struggled in the first few months before it rebounded into late summer. On average stocks historically peaked in August before they consolidated in the months following.

**Chart 1. S&P 500 Index: 2025 tracking history**

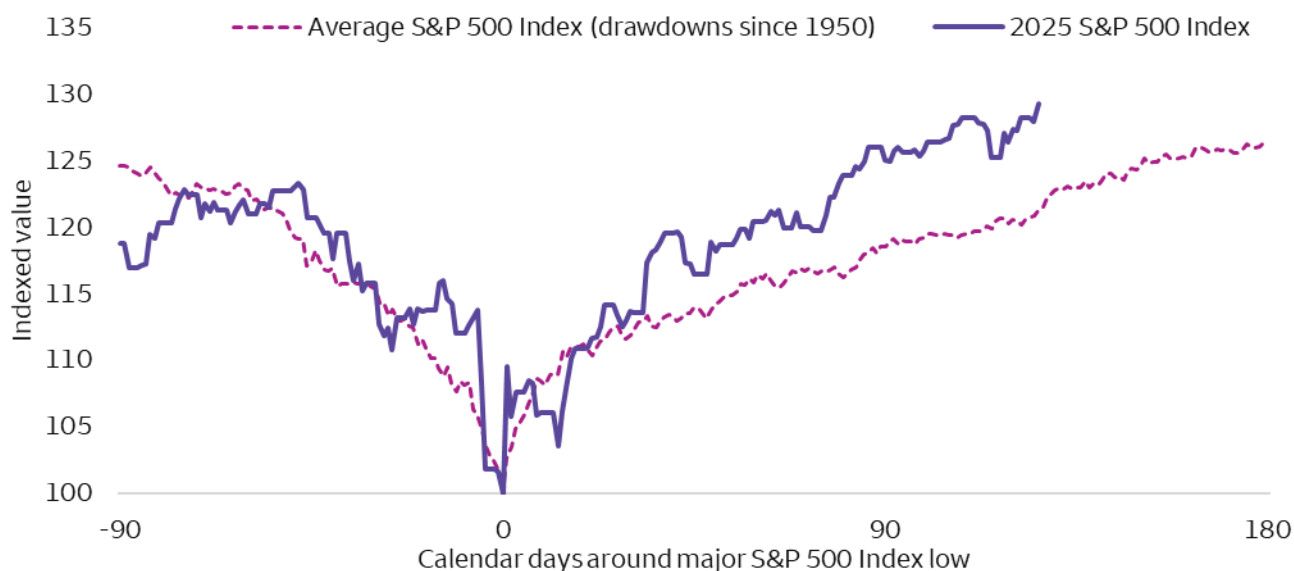


Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from January 1, 1929 - August 11, 2025. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment. See list of years used at the end of this report.

Seasonality — market tendencies based on the time of year or cycle — should not be viewed as a crystal ball and certainly should not be the sole rationale for any investment decision. However, we do see catalysts that we believe are likely to keep stocks tracking with history over the next few months.

## Susceptible to disappointments

Elevated AI expectations, increasing tariff clarity, the passage of the One Big Beautiful Bill Act (OBBBA), a surprisingly strong earnings season, and optimism over imminent Federal Reserve (Fed) rate cuts have all had a hand in driving one of the sharpest stock market rebounds in history this year (see Chart 2). With sentiment optimistic and valuations full, markets are susceptible to disappointments, in our view.

**Chart 2: 2025 has seen an unusually sharp rally off a major low**

Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from January 1, 1950 - August 11, 2025. Major S&P 500 Index low defined as the trough date after every 15 drawdown of 18% or more since 1950. Indexed to 100 as of each trough date at time 0. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment. Average includes 15 drawdowns since 1950.

### What could disappoint?

The usual suspects include the economy, interest rates, and policy.

We have seen cracks in labor, the consumer, and overall economic activity recently. If that continues or worsens — as our forecast indicates — investors will likely be quick to move to the sideline. Meanwhile, if the Fed doesn't ease the fed fund rate in September or indicates that the consensus expectation of over five rate cuts by year-end 2026, according to Bloomberg, is unlikely, stocks could move lower. A 10-year U.S. Treasury surpassing 4.5% and approaching 5%, which has repeatedly coincided with stock market drawdowns in the last few years, would also be a headwind, in our view. Finally, we only need to look to the Liberation Day reciprocal tariff announcement in April to see how stocks can react to policy proposals.

### What could drive markets meaningfully higher?

There is not another OBBBA in the works that could drive expectations for more fiscal spending. The Fed may ease fed fund rates in September, yes, but we believe the market is already expecting a cut. The AI story likely has legs, and overall earnings growth will likely continue, in our view, but we won't get any confirmation of that view until well into the October and November earnings season. Trade policy negotiations are ongoing, but with deal frameworks announced for the majority of major U.S. trade partners, markets are sanguine on U.S. tariffs averaging 10% to 20%. A better-than-expected China deal could provide a spark, but the trade truce was just extended another 90 days. In short, the next few months at this point look to be devoid of major market-positive catalysts.

### What it all means

Like a toddler coming off a sugar rush, the markets may need a little rest here. A consolidation period is likely in the near term and a 5% to 10% stock market pullback has been common and would not be surprising.

In an effort to take advantage of the recent rally and position for this outlook, we have downgraded U.S. Small Cap Equities from neutral to unfavorable and modestly trimmed allocations to U.S. Large Cap Equities, which we continue to rate as favorable. In the event stocks meaningfully pullback in the coming months, we would likely view that as an opportunity to add back exposure to equities to position for continued growth through 2026.

## Fixed Income

**Luis Alvarado**

Global Fixed Income Strategist

### An update on High Yield duration

The decline in credit spreads in the HY index<sup>2</sup> has gained notable attention over the past several years, especially as credit-risk appetite has remained. Behind the scenes, the composition of the HY index has also changed, and this has affected the duration of the HY index, as well. Issuers have been cautious about locking in high interest rates for longer periods, especially during 2022–2023 when rates surged. This led to fewer, longer-dated bonds entering the HY index. And although the HY index weighting has shifted toward higher-rated BB bonds, which often have relatively longer maturities than riskier CCC-rated bonds, this has not prevented the duration of the HY index from declining.

Also, shorter index duration implies that issuers most likely will need to refinance more frequently, but this does not automatically translate into higher risk. Overall, credit fundamentals are relatively strong, especially given the forward-earnings expectations over the next 12-months.

Lower duration means the HY index is likely less vulnerable to interest rate hikes, but perhaps more sensitive to credit events. With shorter maturities, any deterioration in issuer fundamentals could have quicker consequences. Again, not our base-case assumption given the earnings picture. We believe elevated yields in the HY index still offer potential for favorable total returns, especially if rates stabilize or decline further as the Fed gets ready to cut interest rates. For now, we remain neutral on the HY asset class and will continue to look for better entry opportunities to add additional capital above strategic allocation levels.

### HY index duration has been declining over the past 3 years



Sources: Bloomberg and Wells Fargo Investment Institute. Daily duration data from August 1, 2020, to August 12, 2025. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment. Option-adjusted duration (OAD), also known as effective duration, is a measure of a bond's price sensitivity to interest rate changes that takes into account embedded options, like call options or put options.

2. High Yield index = Bloomberg U.S. Corporate High Yield Index.

# Real Assets

Sameer Samana, CFA

Head of Global Equities and Real Assets

## Gold consolidating at its peak

Gold spot prices had a strong start to the year and jumped over 30% from December 31, 2024, to its peak on April 21. However, the price of gold has had little movement since then as the initial drivers — U.S. dollar weakness, a tariff-driven perceived flight to safety, and expectations of higher inflation and lower interest rates — have waned.

In our view, the largest driver of these factors was the decline in the U.S. dollar, which started in early February and has remained flatlined since April 21 — mainly due to a recovery in the U.S. equity markets. The second largest factor was the announcement of increased tariff rates in early April, which led to the selling of risk assets and a perceived flight to safety into gold. Given time, however, investors have come to accept the now higher tariff rates and are returning to risk assets and taking their profits in gold.

Lastly, there were probably some investors who rushed to gold due to concerns about sharp rate cuts and higher inflation. It would be fair to say that we believe inflation has thus far been well behaved — although there are signs that it is percolating — and fed fund rate cuts have been pushed back, yet again.

Our favorable view on gold and precious metals continues to rest on durable demand by central banks and investors to further diversify their exposures. We expect the Fed Funds rates to fall over in the coming year and for inflation to tick higher from the recent lows. Investors should consider pullbacks to add gold and precious metals exposure to their portfolios.

## Gold pausing to refresh



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from August 8, 2022, through August 8, 2025. XAU = Gold Spot price in US dollars per troy ounce. SMAVG (50) = 50-day simple moving average. SMAVG (200) = 200-day simple moving average. RSI = relative strength index. **Past performance is no guarantee of future results.**

# Alternatives

Mark Steffen, CFA, CAIA

Global Alternative Investment Strategist

## A Macro divergence

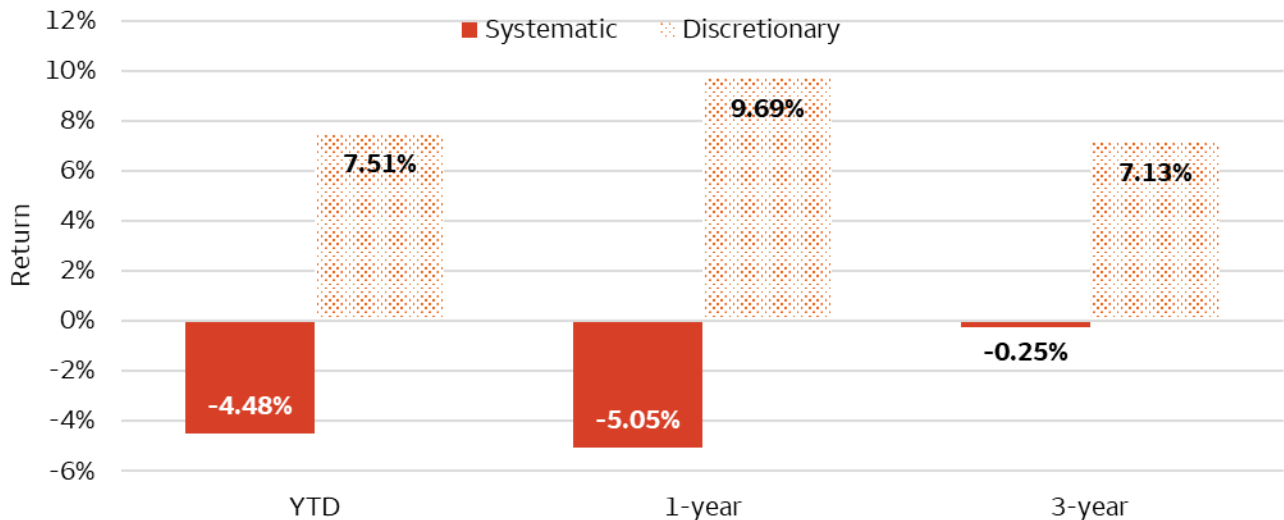
Systematic and Discretionary are sub-strategies in the Macro hedge fund category yet can perform very differently from one another at times. While Systematic sub-strategies outperformed their Discretionary counterparts during the market downturn in 2022, Discretionary sub-strategies have outpaced Systematic by nearly 12.0% year-to-date, and by over 14.7% on a one-year basis through July (see chart).

Macro Systematic sub-strategies employ quantitative models in an attempt to capitalize on both positive and negative price trends across four major categories, including stocks, bonds, currencies, and commodities. We expect these trend-following strategies to generally perform well in environments characterized by sustained momentum in price trends (either upward or downward). In contrast, Macro Discretionary sub-strategies typically rely on subjective decision-making by a portfolio manager or team. These sub-strategies attempt to profit from macro-economic analysis and often have greater opportunities to outperform when markets are driven by central bank and government action, or significant geopolitical events.

Macro Discretionary sub-strategies have performed well in 2025 (+7.5%) likely due to global markets being heavily influenced by the new administration’s trade policies, the speculation that short-term interest rates may be lowered, and the market-moving impact of geopolitical conflicts. Conversely, Macro Systematic sub-strategies have been whipsawed by the frequent trend reversals witnessed across equity, fixed income, and commodity markets, negatively impacting the recent performance.

In late 2024, we downgraded the Systematic sub-strategies to neutral and maintained our favorable guidance on the Discretionary sub-strategies as we increased our exposure to strategies that may be able to capitalize on an improving economy. Given the outsized market influence of large macro events, we expect to maintain this favorable view of Macro Discretionary as we believe these sub-strategies should continue to be positioned to capitalize on opportunities and potentially offer diversification benefits when combined with traditional long-only equity investments.

### Macro Discretionary sub-strategies have significantly outperformed Systematic sub-strategies in recent periods



Sources: Hedge Fund Research and Wells Fargo Investment Institute. Macro Systematic sub-strategies represented by the HFRI Macro – Trend Following Directional Index and Macro Discretionary sub-strategies represented by the HFRI Macro – Discretionary Thematic Index. Data as of July 31, 2025. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

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  U.S. Small Cap Equities	Developed Market Ex-U.S. Equities	U.S. Large Cap Equities  U.S. Mid Cap Equities	

## Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Commodities  Private Real Estate		

## 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, August 18, 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.

## Definitions

Bloomberg U.S. Corporate High Yield Index covers the universe of fixed-rate, noninvestment-grade debt.

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.

HFR 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 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.

HFR Trend Following Directional Index is a global, equal-weighted index of single-manager funds that report to the HFR Database. The HFR Trend Following Directional Index is comprised of funds that employ trend following strategies such as Macro: Currency – Systematic, Macro: Systematic Diversified, certain Macro: Multi-Strategy funds and other Macro funds that utilize, to some degree, trend following.

**Note:** HFR 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 HFR 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.

An index is unmanaged and not available for direct investment.

Bond rating firms, such as Moody's, Standard & Poor's and Fitch, 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". Not-Rated securities are securities that have not received a credit rating from one or more of the major credit rating agencies. These securities can present significant liquidity disadvantages to investors.

Number of years in the average and the years used for S&P 500 Index: 2025 tracking history chart: 1929, 1933, 1937, 1941, 1945, 1949, 1953, 1957, 1961, 1965, 1969, 1973, 1977, 1981, 1985, 1989, 1993, 1997, 2001, 2005, 2009, 2013, 2017, 2021.

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