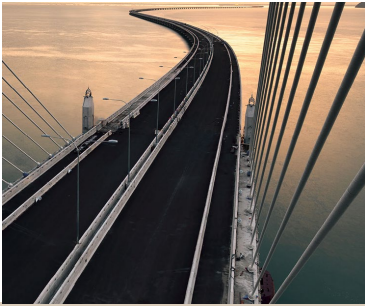


Investment Strategy



Weekly guidance from our Investment Strategy Committee October 13, 2025

Fixed Income Spotlight: Unpacking corporate credit spreads.....	2
• Economic slowdown and labor-market concerns have not been felt in credit markets, as credit spreads are near historically tight levels. • We continue to recommend exposure to credit markets, but we prefer a higher quality credit strategy. Our current guidance in investment-grade (IG) credit is favorable, while our guidance on high-yield (HY) credit markets is neutral.	
Equities: Stocks near all-time highs versus Fed rate cuts	4
• Historically, rate cuts by the Federal Reserve (Fed) were a tailwind for U.S. equity performance — even when stock prices were near all-time highs. • We expect a strengthening U.S. economy and lower interest rates to drive corporate profitability and performance for U.S. Large Cap Equities.	
Municipal Bonds: Government shutdown and Medicaid	5
• Medicaid cuts were already posing a challenge for public health-care providers in U.S. states and counties. • The government shutdown has led to a lapse in some Medicaid-related programs, amplifying short-term credit challenges and casting a spotlight on the timeline for future Medicaid cuts.	
Real Assets: Silver spotlight: Poor man’s gold outperforming.....	6
• Silver has outperformed S&P 500 Index and even gold over the past three years. • We believe that the key supports to the rally are still in play and would view price weakness as an opportunity to add exposure to both silver and gold. We remain favorable on Precious Metals.	
Alternatives: Distressed prospects remain despite lower rates ahead	7
• Although traditional measures show moderating default rates, the inclusion of distressed exchanges highlights the continued upward trajectory in credit stress. • Despite economic growth improvement, we expect Distressed Credit sub-strategies to remain attractive as Fed rate cuts may not sufficiently ease pressure on highly leveraged firms.	
Current tactical guidance.....	8

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

Fixed Income Spotlight

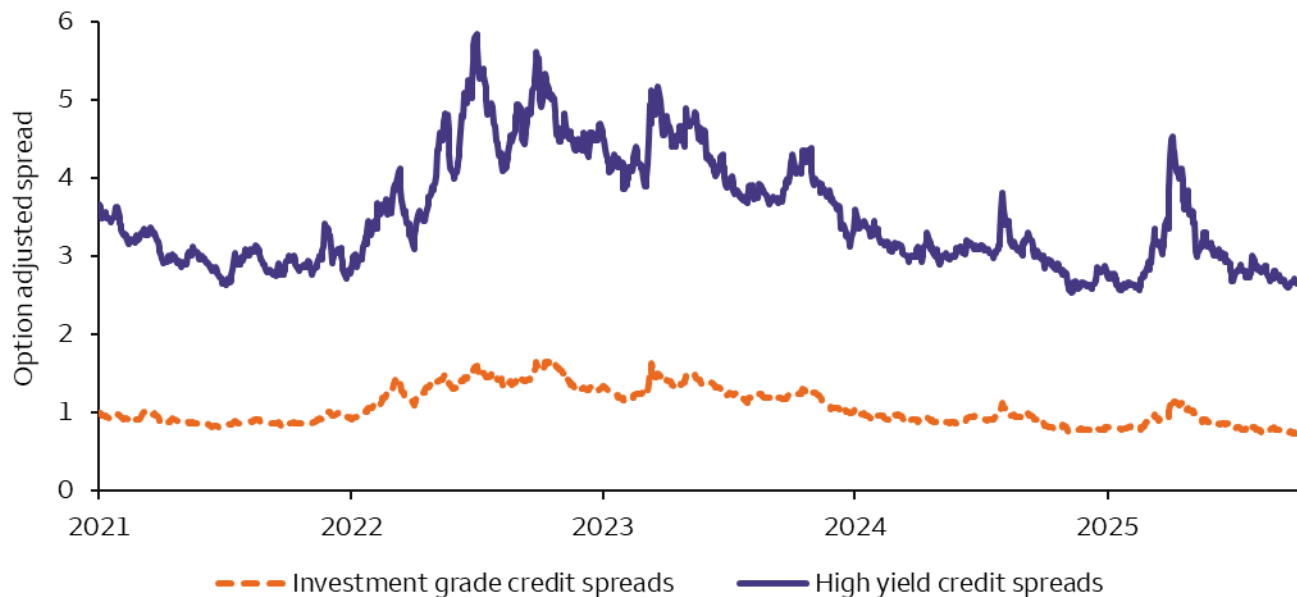
Tony Miano, CFA, CAIA

Investment Strategy Analyst

Unpacking corporate credit spreads

As investors watched credit markets with bated breath this year, many feared that the specter of economic turmoil would manifest as increasing credit risks. For a time, it may have seemed that those fears were justified. In the aftermath of early-April's tariff announcements, credit spreads (a measure of the risk associated with a fixed income security over a comparable U.S. Treasury security) in HY bonds skyrocketed to the highest levels in two years.¹ IG spreads saw a similar spike. As some of the worst case concerns on tariffs and the economy have so far not materialized we have seen credit spreads tighten since the initial reaction. Chart 1 below demonstrates how rapidly credit spreads have reversed course, now sitting near post-COVID lows.

Chart 1. High-yield and investment-grade credit spreads since 2021



Sources: Bloomberg as of October 6, 2025. Investment-grade credit spreads measured by the Bloomberg US Aggregate Corporate Index Average OAS. High-yield credit spreads measured by the Bloomberg High Yield Index Average OAS. An index is unmanaged and not available for direct investment. **Yields represent past performance, which is no guarantee of future results, and fluctuate with market conditions.**

The resilience of corporate balance sheets has supported historically tight credit spreads, post-COVID corporate management teams have managed balance sheets more dynamically with a strong focus fiscal responsibility. S&P 500 Index companies hold almost \$2 trillion in cash on their balance sheets.² Earnings have also remained strong, with second quarter (Q2) 2025 earnings posting strong beats on both sales and earnings per share (EPS). While the quality of HY indices has generally increased over the years, they still represent smaller companies that are more susceptible to economic shock. In our current outlook we do not anticipate substantial negative economic shocks.

1. Measured by University of Michigan US Index of Consumer Sentiment for September 2025.

2. "Corporate Cash Levels Are Starting to Fall," Bloomberg, June 7, 2025.

However, balancing the need for income with relatively tight credit spreads we favor a moving up in credit quality strategy to limit the risks to unexpected economic shocks.

While investors do need credit exposure in their portfolios, particularly those who focus on income generation, we believe that a prudent balance of risk and reward is vital. Our outlook for the economy is that any softening in late-2025 or early-2026 should be relatively short lived before the economy reaccelerates. In this environment, credit exposure should be valuable for investors. However, risks do still exist in credit markets and they are unlikely to be immediately resolved as the Fed lowers rates. In the event of any economic shock these risks are likely to be felt most notably in HY bonds. Given credit spreads at historically tight levels, we do not believe that potential credit risks are fully priced in by the market. Spreads appear to be priced for perfection in HY and any deviation in the economic environment is likely to result in a widening of spreads. While we do not see this as our base case, the tradeoff between risk and reward is still an important consideration in HY bonds.

We believe investors can gain exposure to the additional yield pickup offered by credit exposure in a prudent manner. As we forecast only a minor soft patch hitting the economy in coming months, spreads should stay stable or even tighten further once the economy reaccelerates. IG bonds provide a way for fixed-income investors to gain exposure to that dynamic while still being conscious of risks to the downside. While the spread component of yields for investment-grade bonds is minor, it does provide added yield that we feel should not be ignored in a resilient market. It is also important to keep in mind that there is still some risk to the economy. In that case, historically tight spreads in HY bonds may not justify the risk added by lower quality credit exposure. As a result of these two factors, we are Favorable on Investment Grade Corporate Securities and Neutral on High Yield Taxable Fixed Income. We believe IG can offer a better mix of risk and reward for investors seeking to enhance yields with credit exposure. In our view, a pullback in HY may be required for yields to become more attractive for income-oriented investors.

Equities

Mason Mendez

Investment Strategy Analyst

Stocks near all-time highs versus Fed rate cuts

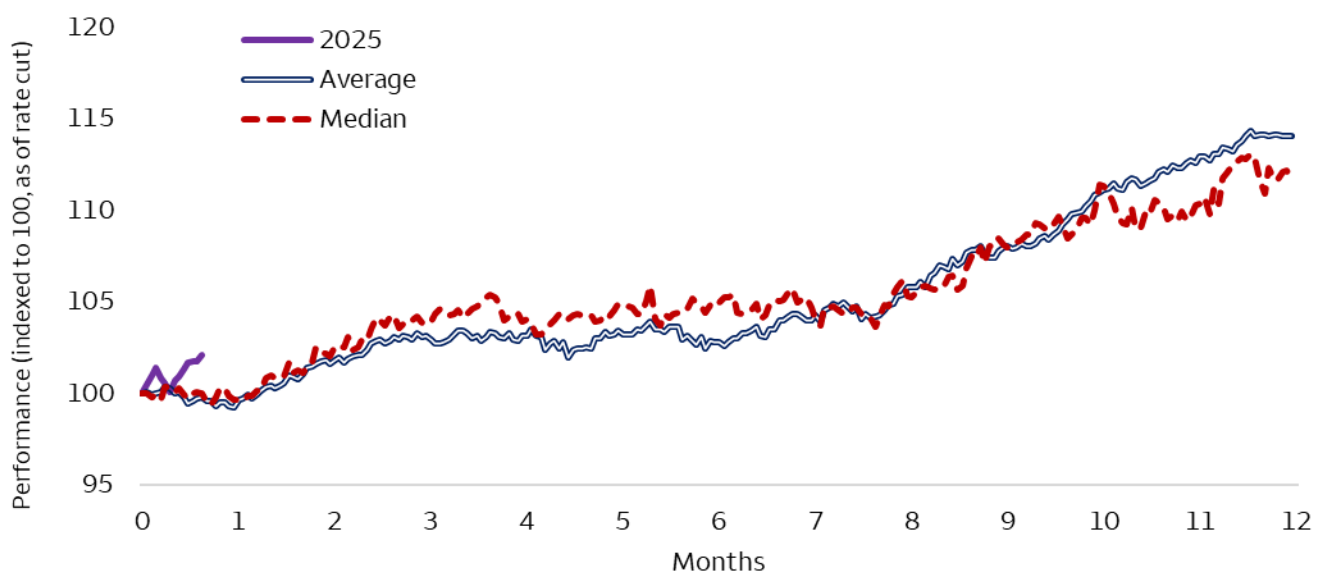
Last month, the Fed reduced the federal funds rate by 25 basis points (0.25%)³, marking the first rate cut since December 2024. U.S. equity markets responded positively to the news, as the S&P 500 Index has notched seven all-time highs since the September 17 cut (as of October 6).

Historically, Fed easing cycles have been a positive tailwind for equity market performance. Notably, even as the Fed cut interest rates while the S&P 500 Index was near all-time highs, performance continued to strengthen over the following 12 months. While no two periods are exactly the same, of the 20 cases studied since 1984, the 12-month forward performance was positive in 100% of cases.

Today, moderating inflation from a delayed pass through of tariff-induced price hikes and relatively modest commodity pricing have created opportunities for the Fed to begin cutting rates again to support economic growth. In effect, we expect the passthrough of lower borrowing costs and a strengthening economy to be a tailwind for corporate profitability and stock prices. Looking into next year, we expect these tailwinds to persist as we believe the Fed will continue its rate-cutting cycle with four additional rate cuts by year-end 2026.

Our 2026 S&P 500 Index year-end price target of 7,400 – 7,600 and EPS target of \$300 reflect our expectations for earnings growth to be the main driver of stock returns next year. We continue to favor higher quality areas of the market such as U.S. Large Cap and U.S. Mid Cap Equities. While on the S&P 500 Index sector side, we remain most favorable on Financials, and favorable on Industrials, Information Technology, and Utilities.

S&P 500 Index performance following Fed rate cuts near all-time highs



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data is from November 7, 1984, to October 7, 2025. Periods are determined by the implementation of a Fed rate cut, when the S&P 500 Index is within 2% of an all-time high price. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

3. 100 basis points equals 1%.

Municipal Bonds

Jon North
Municipal Bond Analyst

Government Shutdown and Medicaid

The July 2025 One Big Beautiful Bill Act (OBBBA) introduced phased Medicaid funding reductions. With Congress failing to pass a budget or continuing resolution by September 30, the federal government officially shut down on October 1—adding complexity to Medicaid’s evolving landscape.

Core Medicare and Medicaid payments, which are not subject to appropriation, remain unaffected. However, several discretionary programs expired with the shutdown, including the \$8 billion Medicaid Disproportionate Share Hospital (DSH) program.⁴ These expirations create short-term uncertainty for healthcare providers, particularly those heavily reliant on supplemental Medicaid funding.

Even before the shutdown, some states began preemptively reducing provider payments in anticipation of OBBBA-related cuts.⁵ The lapse in federal appropriations is accelerating this trend, amplifying fiscal pressure on state budgets and healthcare systems.

While the shutdown’s impact on municipal credit is still expected to be limited, we see increased credit headwinds for states and healthcare entities with high Medicaid exposure. The negotiation process remains fluid, and historical precedent suggests a prolonged impasse is possible—the longest shutdown lasted 35 days in 2018–2019.

We are closely monitoring developments, particularly around reinstatement of expired programs and potential changes to Medicaid implementation timelines. Investors should remain attentive to credit implications across affected sub-sectors, especially healthcare and state-level issuers.

We remain favorable on investment-grade municipal bonds, particularly in the General Obligation and Revenue bond sectors with a focus on credit selectivity.

Table 1: Timeline of Medicaid funding given OBBBA and current shutdown

Date	Action
July 4, 2025	2025 Budget Reconciliation Act (OBBBA) maps out future cuts and program restrictions to Medicaid
September 30, 2025	Budget or continuing resolution fails to pass. U.S. federal government “shuts down”
October 1, 2025	Some Medicaid provisions expire, such as the Medicaid DSH, impacting \$8 billion
December 31, 2025	Affordable Care Act premium subsidies are set to expire
January 1, 2026	Law eliminates financial incentives for states adopting Medicaid expansion
December 31, 2026	Work requirements to receive Medicaid

4. Mulvany, Chad: FORSights: “Federal Government Shutdown: Impact on Healthcare Organizations”.
5. Sable-Smith: NPR: “States are cutting Medicaid provider payments long before Trump cuts hit”.
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Real Assets

“Silver, gold – I don’t discriminate! I like sparkly things.” — Charlaine Harris

Austin Pickle, CFA

Investment Strategy Analyst

Silver spotlight: Poor man’s gold outperforming

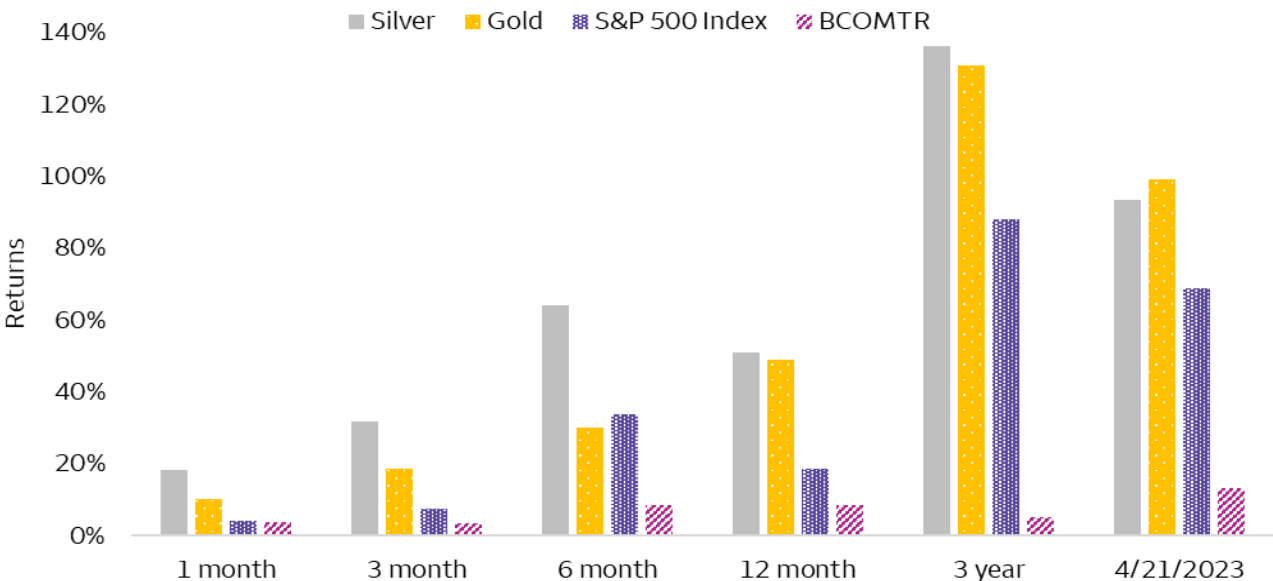
Within Commodities, most media and investor attention has been focused on the run that gold has had. Yet there is another precious metal in our commodity benchmark, the Bloomberg Commodity Total Return Index (BCOMTR), that has had even stronger one-month, three-month, six-month, one-year, and three-year returns. Silver. What happened and what now?

The chart illustrates the remarkable rally in both gold and silver — besting even the stellar artificial intelligence driven run of the S&P 500 Index and dwarfing the BCOMTR return. We moved to a favorable view on the Precious Metals commodity sector on April 21, 2023. Since that upgrade, both gold and silver are up nearly 100%, versus roughly 70% for the total return of the S&P 500 Index (including reinvested dividends), and 13% for the BCOMTR (see chart).

Gold and silver have enjoyed some of the same fundamental supports including periodic fiscal, inflation, currency, volatility, and geopolitical concerns driving investor interest as well as consistently tight markets where elevated demand has outstripped supply. A stark difference between the two metals is that silver has a much larger exposure to industrial activity and electronics usage. As such, it is more cyclically sensitive, and can be more volatile, than gold.

After the sizeable move higher, a consolidation period or pullback would be unsurprising. However, we believe that the key supports to the rally are still in play and would view price weakness as an opportunity to add exposure to both silver and gold. We remain favorable on Precious Metals.

Silver and gold outperforming



Sources: Bloomberg and Wells Fargo Investment Institute. Data as of October 6, 2025. Silver and gold returns are measured as spot price returns. S&P 500 Index returns are measured as total returns, which include both price movement and reinvested dividends. BCOMTR = Bloomberg Commodity Total Return Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Alternatives

Mark Steffen, CFA, CAIA

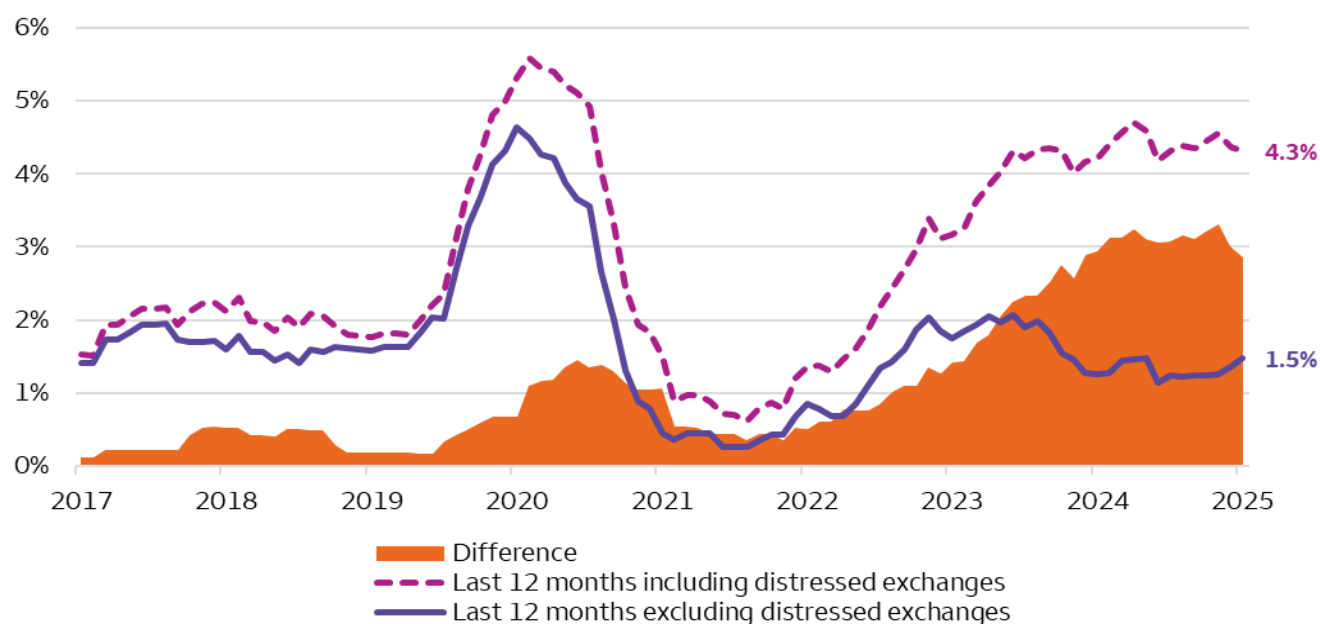
Global Alternative Investment Strategist

Distressed prospects remain despite lower rates ahead

As interest rates began their steady rise in 2022 and 2023, the mantra of many small- and middle-market companies facing rising interest costs and refinancing deadlines was “survive ‘til 25.” While the Fed began to cut rates in mid-2024, the resilient labor market, stickier inflationary pressures, and rising equity markets combined to delay further interest-rate reductions at the time. Moreover, concerns of the delayed inflationary impact of tariffs limited the Fed’s willingness to reduce policy rates further. Yet, that stance began to shift in September as softening in the employment market led to the first interest rate cut of the year, with an additional two cuts projected before year-end.

Lower interest rates will undoubtedly be welcomed by overleveraged businesses struggling to service their debt, yet the pace and magnitude of future cuts may be less than corporate leaders had hoped. While the conventional default rate remains modest, many struggling companies are instead opting to avoid the courts and preemptively restructure their debts. Termed distressed exchanges, the goal of these transactions is to improve the overall health of the company by reducing debt, extending maturities, or lowering regular debt-service payments. The growing number of distressed exchanges suggests the opportunity set for Distressed Credit managers may remain robust into the initial stages of the economic recovery. As shown in the chart, distressed exchanges’ levels remain elevated and have continued to drift upward over time. Given these ongoing dynamics, we remain favorable on Distressed Credit sub-strategies — we believe potential opportunities remain robust for those seeking to create viable paths forward for overleveraged businesses.

Decline in U.S. loan default rates by issuer count more than offset by the increase in distressed exchanges



Sources: Pitchbook (Leveraged Commentary and Data) and Morningstar (Morningstar LSTA U.S. Leveraged Loan Index). Data as of September 30, 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.

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, October 13, 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

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. **Municipal bonds** offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income. 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. 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. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

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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.

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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.

Bloomberg High Yield Index measures the performance of the high yield bond market.

Bloomberg US Aggregate Corporate Bond Index includes publicly issued U.S. corporate and Yankee debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

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.

The Morningstar LSTA U.S. Leveraged Loan Index is a market value weighted index designed to measure the performance of the U.S. leveraged loan market. The legacy payment default rate includes Morningstar LSTA U.S. Leveraged Loan Index constituents where the company files for bankruptcy, the facility gets downgraded to D by S&P (excluding distressed exchanges and sub-par buybacks), or the interest payment is missed without a forbearance. Distressed exchanges include all liability management transactions considered a distressed exchange or default by S&P Global Ratings.

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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