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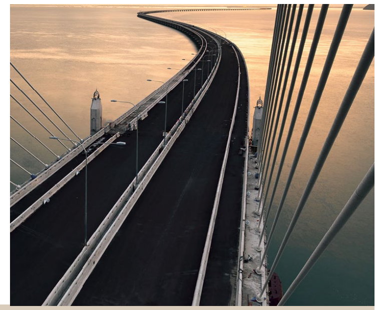
Investment Institute

Investment Strategy



Weekly guidance from our Investment Strategy Committee | October 20, 2025

1. An exit is the process where private equity sells its ownership stake in an investment to realize a return for its investors.

Alternatives Spotlight

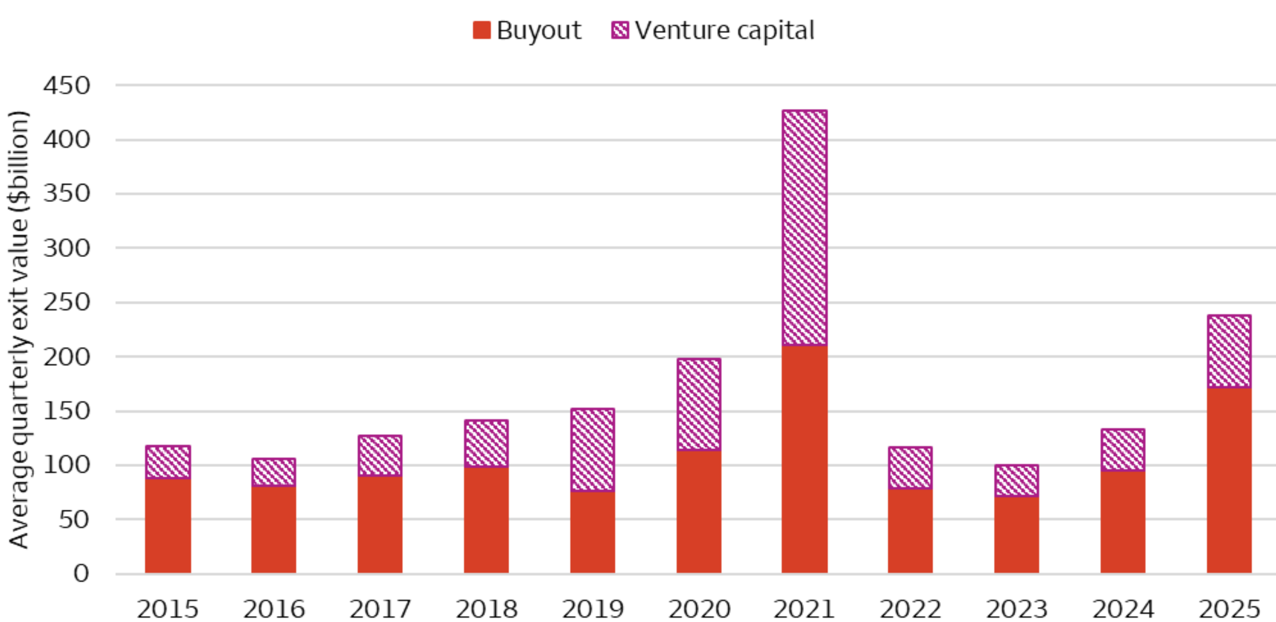
Chao Ma, PhD, CFA, FRM
Global Portfolio and Investment Strategist

Private equity shows signs of recovery

After three years of slowdown, we believe the private equity (PE) market is starting to show signs of recovery in 2025. This rebound comes as inflation has been stabilizing interest rates have eased, and trade policy has become clearer — likely creating a more constructive backdrop for dealmaking and exits.

One notable improvement is in the exit environment.[2] In 2025, private equity was able to find more opportunities to sell or take companies public, which helps return capital to investors and supports future fundraising. As shown in Chart 1, average quarterly exit value in 2025 increased by more than 70% compared to last year. This rebound is evident across both venture capital (VC) which tends to focus on early-stage startups, and buyouts which targets more established businesses. According to Pitchbook[2], the number of exit transactions has risen by over 20% year-over-year.

Chart 1. Private equity deal value showed signs of recovery in 2025



Sources: Wells Fargo Investment Institute and Pitchbook. Data as of September 30, 2025. The data in the chart show all exit transactions collected by Pitchbook, which include any sale of a PE-backed company that results in a change in majority ownership or listing on a public exchange. Please see page 9 for additional disclosures.

Initial public offerings (IPOs), a highly visible form of exit, have gained momentum as well.[2] IPO volume has more than doubled compared to last year, with listings spanning many industries.[2] We believe this diversity reflects renewed investor confidence and a favorable market backdrop. Notably, tariff-related market volatility from February to April this year did not significantly disrupt quarterly exit data,[2] which in our view highlights the resilience of the recovery.

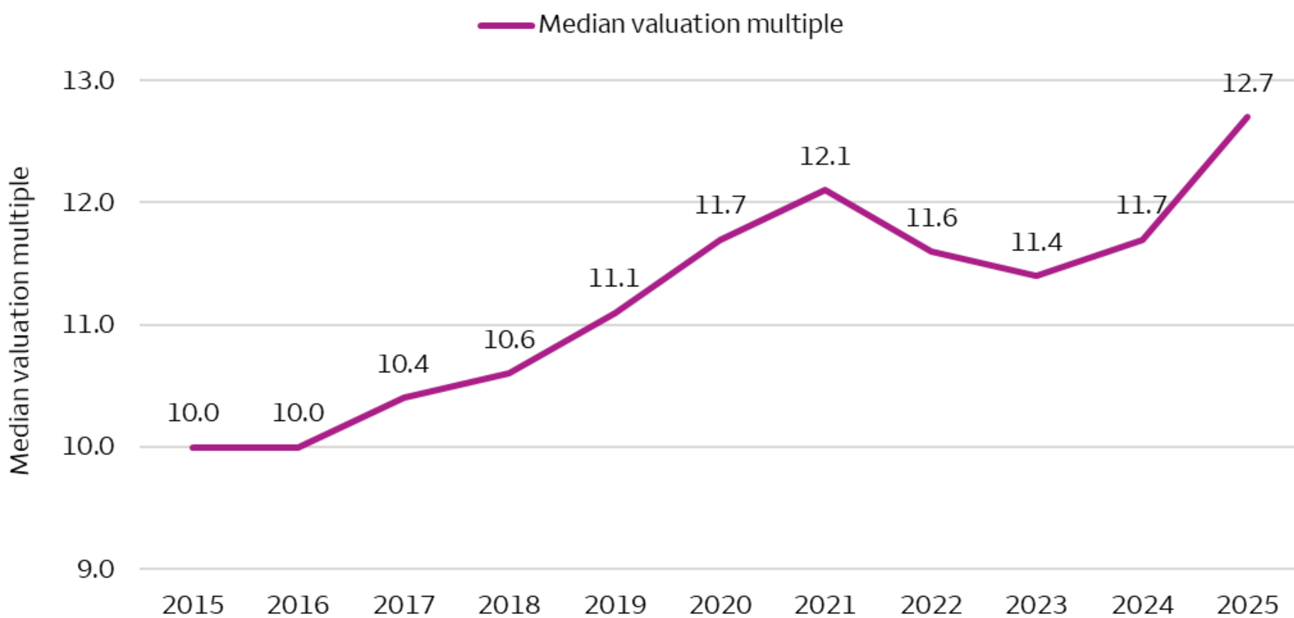
2. Pitchbook, "US PE Breakdown," October 10, 2025.

Private equity dealmaking activity has also strengthened: Quarterly deal value is up over 40% so far this year for both buyout and venture capital,[2] likely supported by lower borrowing costs, improved policy visibility, and for buyout steady earnings growth among private companies.[3] Interestingly, the total number of deals has remained largely flat, which we believe suggests a market preference for larger, higher-quality companies.

Valuations, which had consolidated over the past three years, are beginning to rise again in 2025 (see Chart 2), a trend we believe reflects investor interest in top-tier assets. On the other hand, many PE-backed companies continue to face challenges in finding opportunities to exit. The number of such companies in the U.S. has grown to over 12,900, and median holding periods remain elevated.[2]

Chart 2. Median buyout exit transaction valuations started to increase in 2025

This line chart shows that buyout valuations in exit transactions increased from 2016 through 2021, followed by gradual decreases through 2023. Then, in the first two quarters of 2025, valuations increased significantly again.



Sources: Wells Fargo Investment Institute and MSCI. Data as of June 30, 2025. The data includes all exit transactions collected by MSCI, which include any sale of a private equity-backed company that results in a change in majority ownership or listing on a public exchange. Valuation multiple: Enterprise Value (total value of a company, including its equity, debt, and the cash it holds) against its Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). Please see page 9 for additional disclosures.

Long-term private equity investment themes continue to shape the market. Artificial intelligence (AI) continues to attract strong interest, especially in VC.[4] Through September 30, 2025, AI-related deals[5] have accounted for 64% of total VC deal value — more than double the share from five years ago.[3]

Overall, we believe the recovery in exits and dealmaking is a positive development for the private equity market. However, broader participation across the full spectrum of private equity holdings is likely necessary for a more sustained recovery and growth cycle to follow. Looking ahead, we believe the trajectory of economic growth, interest rates, inflation, and policy clarity will play a key role in shaping private market dynamics.

In today's environment, we continue to favor higher-quality Growth Equity sub-strategies over early-stage VC. Additionally, we believe the opportunities in Small/Mid Buyouts and Secondaries — where investors buy existing stakes — remain attractive.

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3. MSCI, "Private capital benchmarks report," October 2, 2025.
4. Pitchbook, "Venture Monitor First Look," October 2, 2025.
5. Pitchbook defines AI venture capital as the financing of startups and early-stage companies that develop or utilize Artificial Intelligence.

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.

Equities

Alex Sagal
Equity Sector Analyst

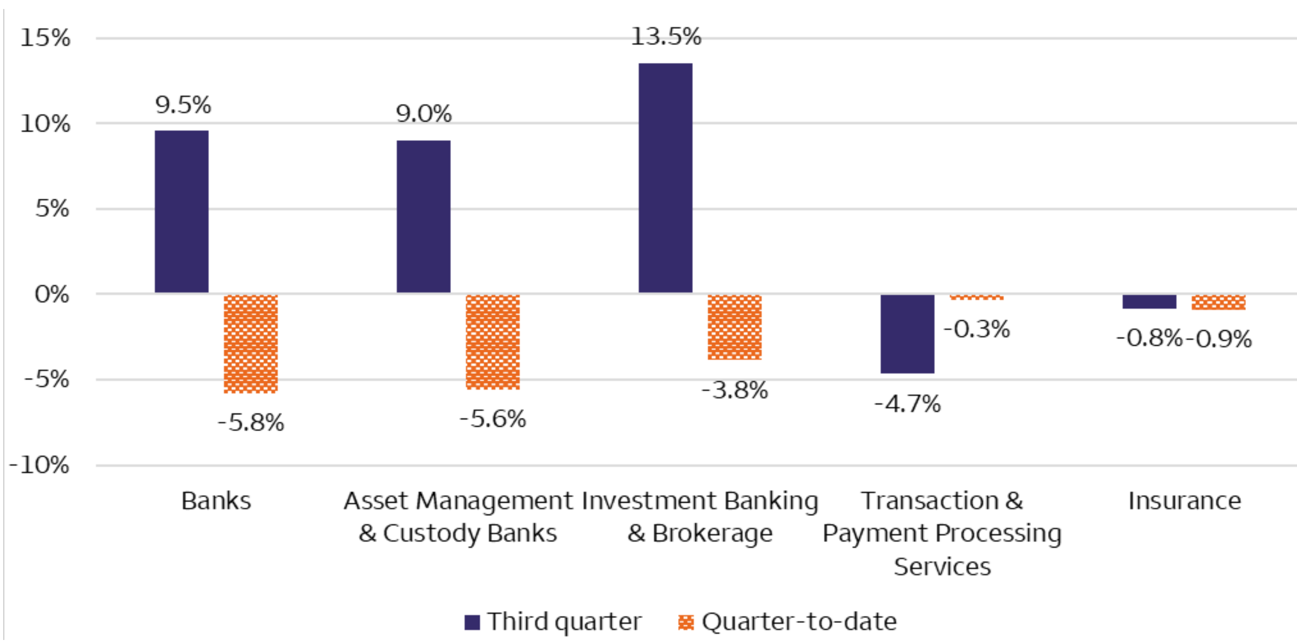
Capital markets activity builds on renewed optimism

The uncertain macroeconomic backdrop throughout 2022, 2023, and the first half of 2024 — marked by the ongoing wars in the Middle East and Eastern Europe, concerns about a credit-loss cycle, persistent inflation, and the most aggressive Federal Reserve (Fed) rate-hiking cycle in four decades — significantly challenged capital markets activities such as IPOs, mergers and acquisitions, and debt and equity underwriting. However, recent tailwinds including a Fed rate cut (with more expected), historically tight credit spreads, rising equity markets, and better-than-expected economic performance have helped revive activity in recent quarters.

We believe there is a runway for continued momentum, driven by a backlog of pent-up demand. For instance, long-awaited IPOs have generally been well received, potentially encouraging others that delayed going public to reconsider amid improving conditions. Additional indicators, such as commentary from bank management teams,[6] suggest capital markets activities accelerated through the end of the third quarter and that their expectation is that momentum should be sustained.

This renewed optimism has translated into strong investment returns while other areas of the Financials sector were mixed in the third quarter — the Banking industry rose 9.5%, Asset Management & Custody Banks sub-sector gained 9.0%, and the Investment Banking & Brokerage sub-sector advanced 13.5% (see chart below). That said, we believe quarter-to-date performance serves as a reminder that trends in cyclical industries can reverse quickly, as market sentiment often drives transactional decisions. Despite recent volatility, we do not expect weakness to persist and remain favorable on the Diversified Banks and Capital Markets sub-sectors.

Performance of select S&P 500 Index sub-sectors



Sources: FactSet and Wells Fargo Investment Institute. Data as of October 10, 2025. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

6. Third quarter earnings conference calls of JPMorgan Chase & Co., Morgan Stanley, Citigroup, Inc., and Goldman Sachs Group, Inc.

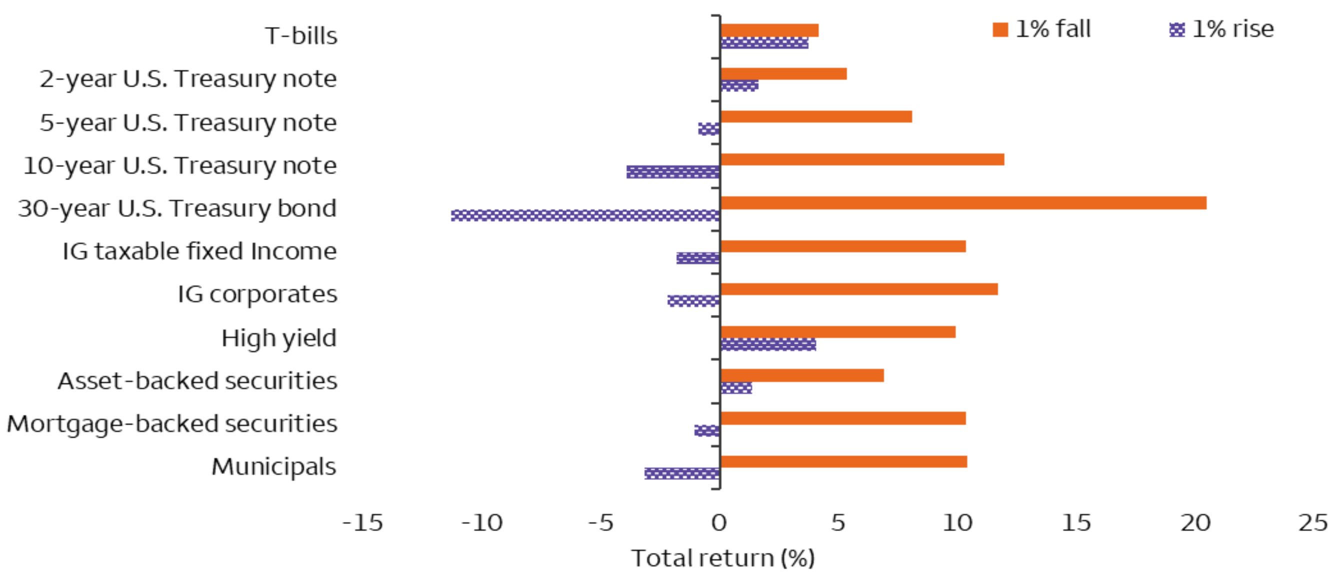
Fixed Income

Luis Alvarado
Global Fixed Income Strategist

Asymmetrical returns in fixed-income sectors

Long-term U.S. Treasury bond yields have been reacting to headlines over the past few weeks as investors continue to digest the government shutdown and anticipate a policy rate cut from the Fed at its October 29 meeting. As we approach the last 50 trading days of the year, key events may inject volatility into interest-rate levels, which is why we believe it is important for investors to evaluate the potential moves in interest rates from current levels. The chart below illustrates returns of different types of fixed-income sectors if interest rates move higher or lower by 100 basis points (1%). Notably, the asymmetry in price returns becomes more evident in bonds with a higher duration.[7]

Impact of a 1% sudden rise or fall in interest rates



Sources: Bloomberg and Wells Fargo Investment Institute, as of October 13, 2025. For illustrative purposes only. Hypothetical example of the price change of bonds over a 12-month period. IG = investment grade. An index is unmanaged and not available for direct investment. See index definitions at the end of the report. **Past performance is not a guarantee of future results.**

It may sound tempting for some investors to consider purchasing a 30-year Treasury bond. Over a 12-month period, a 1% decline in long-term interest rates would generate a 20% gain in the market value of the bond. However, if long-term interest rates were to increase by 100 basis points (1%), the price of the hypothetical bond could fall by over 11%. In our view, the bias is for long-term interest rates to move higher from current levels over the next 15 months, not lower. And outside of a recession, we find it difficult for 10-year and 30-year Treasury bonds to fall below 4% for an extended period. We favor maintaining a favorable allocation to intermediate-term fixed income. In our view, current starting yields in intermediate-term fixed income (3–7-year maturities) continue to offer an attractive entry opportunity relative to cash.

7. Duration is a measure used to determine a bond's or bond portfolio's sensitivity to movements in interest rates. Generally, the longer the duration the more sensitive a bond or bond portfolio is to changes in interest rates.

Real Assets

Sameer Samana, CFA
Head of Global Equities and Real Assets

Commodities breaking out

Commodities have spent much of 2025 demonstrating their ability to help diversify portfolios during environments that have, at times, been tough for traditional asset classes, such as stocks and bonds. The Bloomberg Commodity Total Return Index (BCOMTR) is up 10.75% year-to-date through October 13, 2025, versus 6.75% for the Bloomberg US Aggregate Bond Index, and 14.30% for the S&P 500 Index. The positive performance within Commodities has been broad-based and has been led by commodities precious and base metals, both of which we rate as favorable.

The drivers of this performance have been just as diverse and include a solid economy, perky inflation, a Fed that has once again started to cut interest rates, continued geopolitical uncertainty, and persistent weakness in the U.S. dollar. While some of these factors may lose strength in the coming months, such as a stabilizing U.S. dollar, it is hard to see most of them reversing any time soon. We see Commodities as a potential hedge in this environment and recommend investors carry full weightings, while favoring commodities precious and base metals.

The chart below shows the BCOMTR (264) is in an uptrend, with the 50-day moving average (256) now trading above the 200-day moving average (253). It should find support at the 50-day moving average (256) followed by the 200-day moving average (253). Resistance sits at the recent high (267).

Commodities continue to reach new highs

Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from October 13, 2022, through October 13, 2025. BCOMTR = Bloomberg Commodity Total Return Index (BCOMTR). SMAVG (50) = 50-day simple moving average. SMAVG (200) = 200-day simple moving average. RSI = relative strength index. An index is not managed and not available for direct investment. **Past performance is not a guarantee of future results.**

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 20, 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. 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.

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. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector.

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

T-bills (Treasury bills): Bloomberg U.S. Treasury Bills (1–3M) Index, Investment-grade (IG) taxable fixed income: Bloomberg U.S. Aggregate Bond Index. IG corporates: Bloomberg U.S. Corporate Bond Index, High yield: Bloomberg U.S. Corporate High Yield Bond Index, Asset-backed securities: Bloomberg U.S. Asset Backed Securities Index, Mortgage-backed securities: Bloomberg U.S. Mortgage-Backed Securities Index, Municipals: Bloomberg Municipal Index.

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. Asset Backed Securities Index measures the investment-grade market of US Credit Card, Auto and Student Loan asset backed securities deals.

Bloomberg U.S. Corporate Bond Index measures the performance of the investment-grade corporate bond market.

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. Mortgage-Backed Securities Index includes agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bloomberg Municipal Bond Index is an index of a broad range of investment-grade municipal bonds that measures the performance of the general municipal bond market.

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

Bloomberg Commodity Index is comprised of 22 exchange-traded futures on physical commodities and represents 20 commodities weighted to account for economic significance and market liquidity.

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.

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.

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".

Pitchbook Data Chart 1: PitchBook uses a variety of publicly available sources found in targeted online searches including: more than 1,000,000 web crawlers natural language processing and machine learning, secondary sources (those authored by someone not directly involved in the deal or fund), news – (largest source of information) and other online sources. Quality assurance uses preventive validations, corrective validations, and mutual reviews in an effort to ensure accuracy of data. Data is for educational and illustrative purposes only and there are no guarantees as to accuracy of data or content.

MSCI data Chart 2: MSCI uses cash flows and valuations of hundreds of limited partnerships (LPs) that use solutions provided by MSCI to help manage private capital portfolios of those LPs. This data is pooled for informational purposes only Data is LP sourced and validated by MSCI's research teams. MSCI includes only closed-end and drawdown style funds where managers control the timing of capital movements. For consistency, hedge funds, open-ended vehicles, directs and co-investments are excluded, and all returns are net of fees. Data set it updated quarterly. Data is for educational and illustrative purposes only and there are no guarantees as to accuracy of data or content.

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