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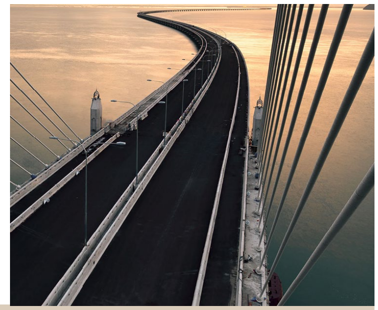
Investment Institute



Investment Strategy

Weekly guidance from our Investment Strategy Committee **March 2, 2026**

1. Year-to-date figures as of February 17, 2026.

Fixed Income Spotlight

Tony Miano, CFA, CAIA
Investment Strategy Analyst

Despite concerns, corporate-bond backdrop favorable

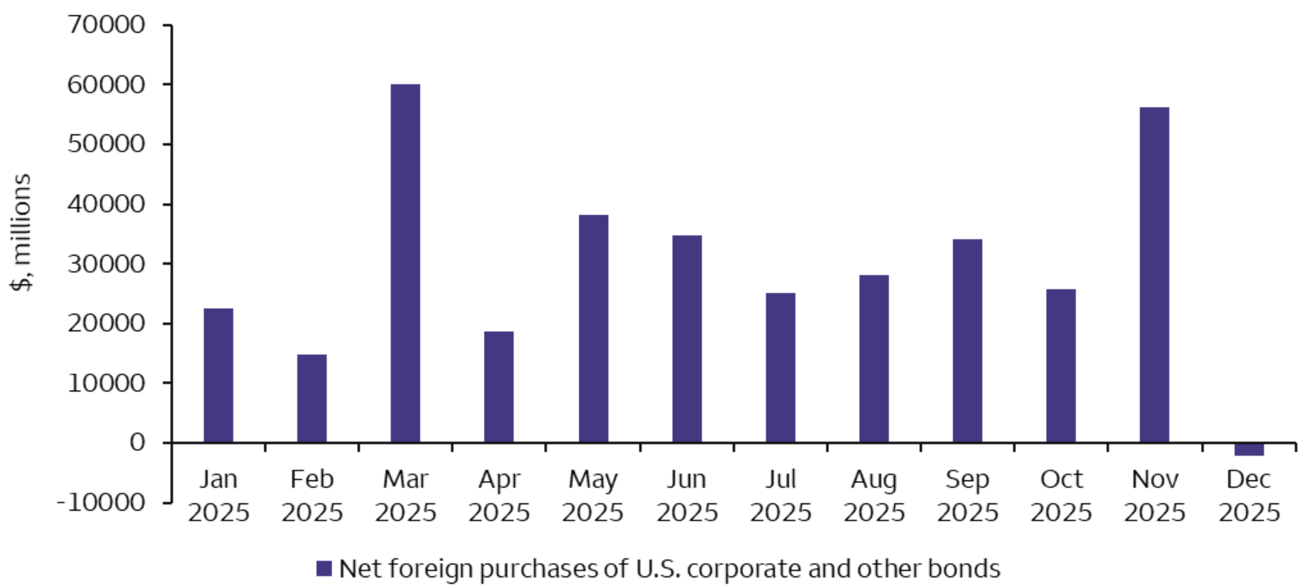
Corporate fixed income was a key focus for investors in 2025, and we believe the factors that drove that relevance are likely to continue. Because corporate bonds typically offer higher yields than U.S. Treasuries and usually display maturities in the short and intermediate term, they are often a popular asset class sought out by investors. In our view, 2026 may be a record year for corporate credit issuance amid high investor demand and tight pricing of credit risks. As investors digest headlines of record credit issuance, an understanding of where we are and where we might go from here will be vital to our favorable guidance on IG Corporate Securities.

Supply and demand dynamics at play

We believe that major IG companies are likely to issue bonds at record levels in 2026, with spending tied to AI being a key driver. We believe some of the largest technology companies may see debt issuances of tens of billions of dollars or more. This comes off the heels of significant debt issuance in 2025, with some companies who were key issuers last year poised to continue the spending spree in 2026. While piling up on debt may seem a cause for concern, we see it as only a minor headwind for corporate bonds. Companies are issuing debt to expand on their capital-expenditure goals and, more importantly, because they are aware of the ample investor appetite for debt.

The robust demand for corporate debt has more than met the increasing supply. Even with increased debt issuance related to AI, these issuing companies are generally still considered high quality and have had limited issues with demand for their debt. AI-related issuance has also generally been in longer-maturity debt, which has historically had a lower level of supply. This has been met with vigorous demand from international investors with a longer investment horizon, and foreign demand for U.S. corporate bonds was strong for the 2025 calendar year.

Chart 1. Foreign investor purchases of U.S. corporate bonds



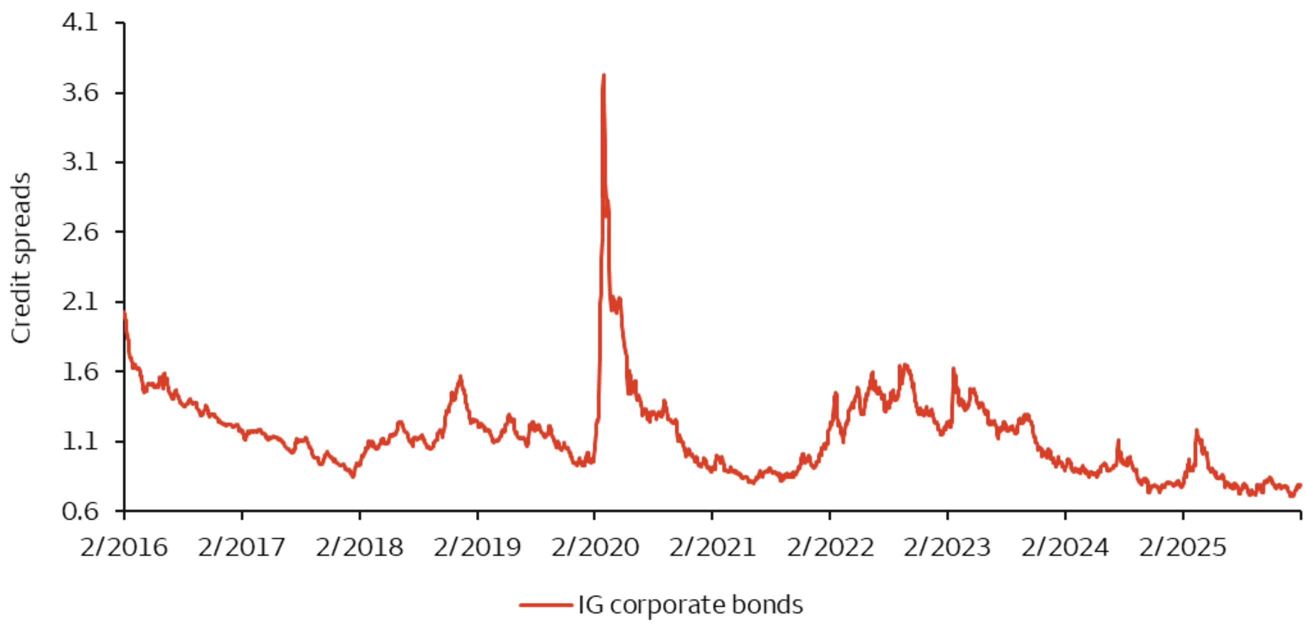
Source: Treasury International Capital. Data as of December 31, 2025.

Demand has also benefited from higher interest rates in these U.S. corporate bonds compared to bonds of other developed nations. U.S.-based asset managers have continued to be significant net purchasers of corporate bonds, further signaling investor demand. Record-high investor holdings of cash and cash alternatives may wind down as the Federal Reserve continues to lower rates, with short- and intermediate-term corporate bonds a likely landing place. The size, strength, and relative attractiveness of the U.S. bond market supports our favorable view of IG Credit and our preference for U.S. debt relative to international debt.

Credit risk

A favorable demand versus supply dynamic has also helped keep credit spreads (a metric for the pricing of credit risks) stable in spite of recent market volatility. The chart below demonstrates that credit spreads have only risen modestly off 10-year lows. These increases have been most acute in some of the technology names with large AI exposure, and while they appear large, spreads are coming off very low levels and generally are not a sign of meaningful stress, in our view. These bonds make up a minority of IG Credit, with other sectors not seeing pressures of a similar magnitude, and thus credit spreads overall have been relatively stable.

Chart 2. IG credit spreads remain close to 10-year lows



Source: Bloomberg. Data as of February 23, 2026. The final value for credit spreads over this period was 0.79, with a 10-year low of 0.71 on January 22, 2026. Credit spread is the difference between the yield (return) of two different debt instruments with the same maturity but different credit ratings.

We see any volatility in credit spreads as being relatively short lived. Our overall positive economic outlook for 2026 reinforces our expectation that credit risks should remain manageable. Given historically low pricing of credit risks, it may still be difficult for credit spreads to move much lower than the levels seen in late January. We believe this environment will allow investors to benefit from the higher income offered by more credit-exposed areas, like IG bonds, over securities with much lower risk profiles, like short-term Treasuries.

Favorable supply and demand dynamics and a positive economic outlook for credit risks drive our belief that IG Corporate Securities remain an attractive option for investors in 2026. In a relatively low risk environment for credit, investors can benefit from the additional income offered by bonds with moderate credit exposure. We are favorable on IG Corporate Securities as a result and see pullbacks on headline risks as likely representing an opportunity for investors, provided our overall economic outlook remains intact.

Equities

Thomas Christopher
Equity Sector Analyst, Communication Services and Information Technology

Sector trends reflect ongoing AI impact on Software

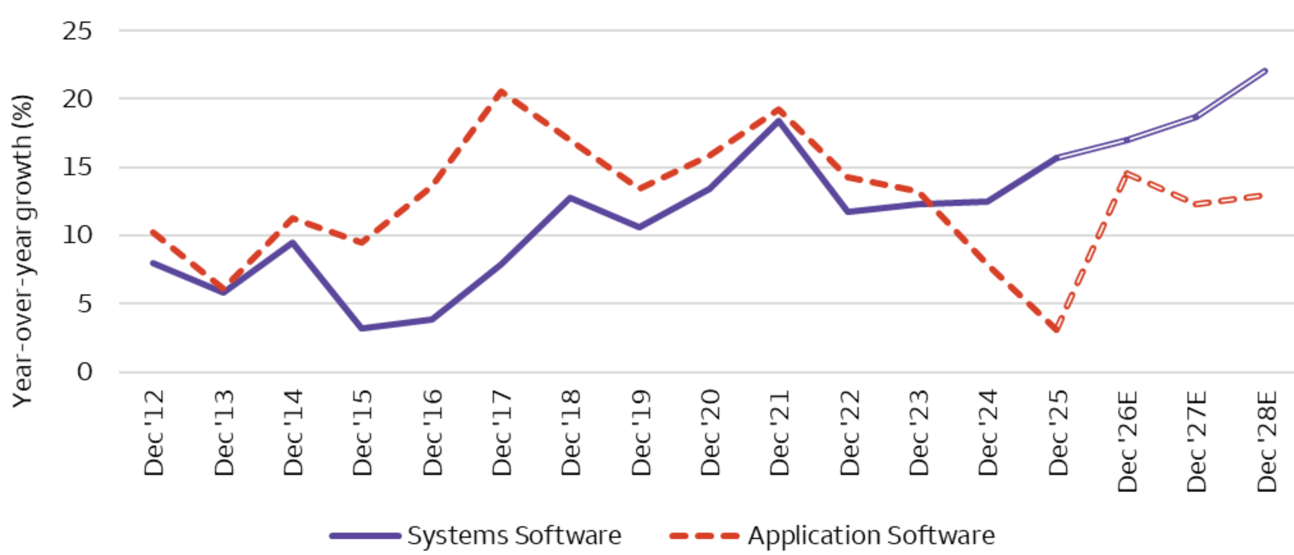
AI adoption continues to reshape the Software sub-sector as it navigates a structurally challenging environment. The headwinds that emerged in 2025 — AI-driven moat erosion, pricing pressure, and slower-than-expected monetization — remain firmly in place. This rotation has kept software valuations and sentiment under sustained pressure. Application software remains the most exposed, with increasing unease around the durability of subscription models, slower monetization, and the defensibility of traditional workflow solutions.

Recently, the emergence of agentic AI tools has become the most significant incremental headwind. Enterprise-grade AI plug-ins capable of executing complex end-to-end workflows across several industries have heightened concerns that AI could meaningfully reduce software seat counts, slow revenue growth, and compress margins.

Performance trends reflect this shift: the Software industry is down 13.8% over the past year, with the Application Software sub-industry declining 24.6% and the Systems Software sub-industry down 10.1%. Conversely, the Semiconductors & Semiconductor Equipment industry is up 53.7% over the same timeframe.[2] Subscription-based, recurring revenue models are under scrutiny, delaying any meaningful inflection in sentiment until technology budgets expand or clearer AI monetization pathways emerge.

Despite these pressures, several areas remain better positioned. Systems software continues to benefit from its central role in AI infrastructure buildouts, including data platforms, orchestration, and observability. While not immune to sentiment pressures, we expect cybersecurity to remain a long-term secular winner as enterprises face rising AI-driven threats and regulatory scrutiny. In this environment, we prefer systems software and cybersecurity leaders as well as selective exposure to vertical software-as-a-service providers with durable moats and strong data or workflow advantages.

Chart 3. Annual sales growth — Application software versus systems software



Sources: FactSet and Wells Fargo Investment Institute. Data as of February 23, 2026. E = estimate. Double lines reflect FactSet consensus estimates. Estimates are based on certain assumptions and on views of market and economic conditions which are subject to change. **Past performance is no guarantee of future results.**

2. Trailing 12-month % change through February 23, 2026. Performance based on corresponding S&P 500 industry and sub-industry indexes.

Real Assets

John Sheehan, CFA
Equity Sector Analyst, Real Estate (REITs)

REITs start 2026 on a positive note

After several years of underperformance relative to the S&P 500 Index, equity REIT total returns through the early part of 2026 have been attractive compared to the broader market. Through February 17, 2026, the FTSE Nareit All Equity REIT Index[3] has generated a 10.6% total return, which exceeds the S&P 500 Index's total return of 0.1%. We believe equity REITs may be benefiting from investors seeking the relative consistency provided by their high dividend yields (roughly 3.7% as of February 17, 2026) given recent elevated volatility in several other S&P 500 sectors, including Information Technology and Industrials.

REIT returns have been positive across most sub-sectors so far this year, with 14 of 17 sub-sectors generating positive total returns.[4] Top-performing REIT sub-sectors include Data Center, Specialty, and Free Standing Retail. The Data Center REIT sub-sector is likely benefiting from continued strong tenant demand for data centers across major markets in the United States, Europe, and Asia. We view the Free Standing Retail REIT sub-sector as a beneficiary of lower interest rates and defensive characteristics, namely stable occupancy, consistent cash flows, and higher-than-average dividend yields.

Among the weaker-performing REIT sub-sectors in 2026, Office has generated the worst total returns (-8.4%). While many office REITs highlighted increasing tenant interest and improving office leasing volumes on their fourth-quarter 2025 earnings calls, it appears investors may have concerns regarding the impact of AI on office-based employment and office space demand. Two residential REIT sub-sectors (Apartment and Single Family Rental) have also posted negative total returns in 2026. We believe the weaker U.S. job growth reported during the second half of 2025 led apartment and single-family REITs to moderate rental rate increases late in 2025, resulting in relatively uninspiring 2026 earnings guidance from apartment REITs.

We remain neutral on the Real Estate sector given REITs' generally defensive positioning, offset by possible impacts from lower interest rates and elevated market volatility. We prefer that investors considering REITs focus on the Data Center and Industrial REIT sub-sectors given positive long-term demand drivers. Looking ahead, we believe the Telecommunication REIT sub-sector could be a beneficiary of potential interest-rate reductions in 2026, along with continued growth in mobile data consumption and the ongoing rollout of fifth-generation wireless technology. Finally, we believe the Self-Storage REIT sub-sector is well-positioned to benefit from an improving single-family housing market.

3. Nareit = National Association of Real Estate Investment Trusts.
4. Performance for REIT sub-sectors as defined by Nareit.

Alternatives

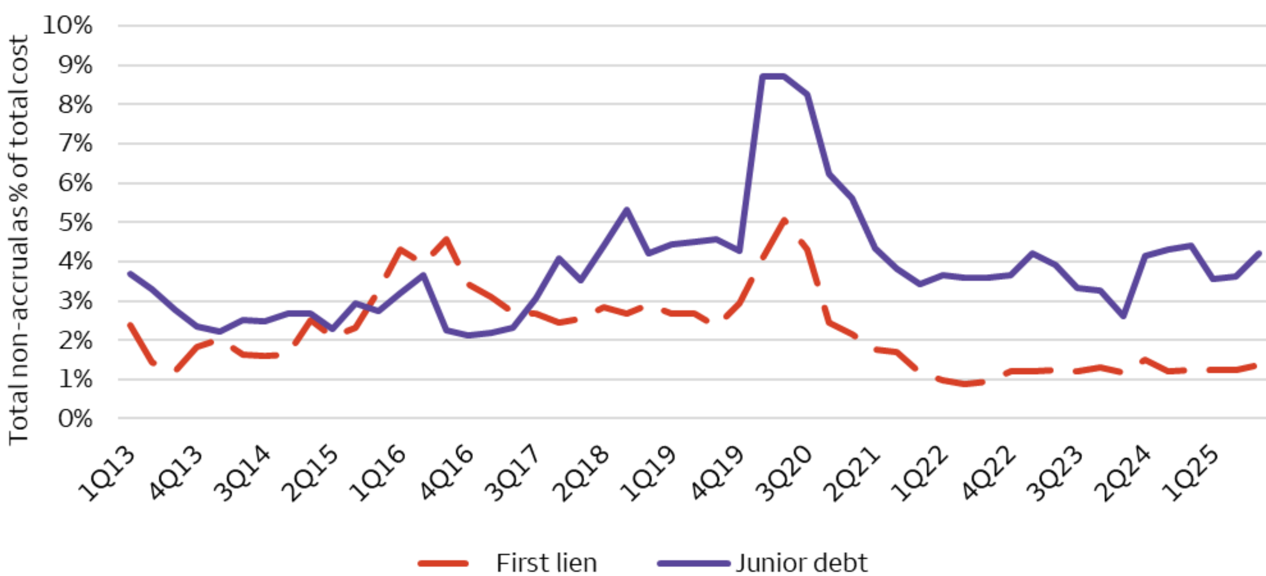
Mark Steffen, CFA, CAIA
Global Alternative Investment Strategist

Private credit: Cautious mood despite solid data

While elevated redemption activity in private credit may reflect growing investor concerns, we have not seen broad based deterioration in underlying fundamentals that would typically accompany this negative sentiment. AI adoption has accelerated across many industries, and certain business models may undergo meaningful transformations as new technologies may reshape traditional ways of operating. Yet, despite AI's potential to disrupt, in our view, private credit may be more insulated from the long-term impacts relative to other asset classes such as public or private equities and longer-term fixed income investments. With an effective average loan life below four years[5], private credit loans may be repaid before many business models reach obsolescence.

Moreover, another positive sign we have observed in the industry has been the growing prevalence of senior secured loans, which place investors first in line to recoup losses in default scenarios and provide collateral at origination. According to data provider Cliffwater, senior secured loans represented 87% (as of September 30, 2025) of total loans in the Cliffwater Direct Lending Index, up from a mere 33% in the fourth quarter of 2004. First-lien debt, which holds the first right to pledged collateral, has also experienced fewer defaults than its junior counterparts. As shown in Chart 4, non-accruals as a percentage of cost value, representing loans generally viewed as being in default, stood at 1.4% for first lien private credit loans as of September 2025. This is well below the 4.2% rate observed in junior debt and is near the lowest levels recorded since 2013. Risks may increase if economic conditions weaken or inflationary pressures delay further relief in debt service costs. We continue to closely monitor the Direct Lending sub strategy for any signs of meaningful credit deterioration, while maintaining a constructive view that the industry should be able to withstand the current period of negative sentiment.

Chart 4. Direct Lending non-accruals at total cost (that is, defaults) by first-lien and junior debt segments



Source: Cliffwater Direct Lending Index (CDLI), Data through 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.

5. Source: Cliffwater Direct Lending Index. Senior loans have the highest priority of repayment in the event of default or liquidation scenarios and are secured by the assets of the company.

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

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Commodities Private Real Estate	Private Infrastructure	

Alternative Investments**

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

Source: Wells Fargo Investment Institute, March 2, 2026. Please see Wells Fargo Investment Institute's Asset Allocation Strategy Report for more detailed, investable ideas in each asset group.

*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. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate. 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.

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.

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

An index is unmanaged and not available for direct investment.

<u>Cliffwater Direct Lending Index:</u> The Cliffwater Direct Lending Index (CDLI) seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission (SEC) filings of all eligible BDCs. Cliffwater believes that the CDLI is representative of the direct lending asset class. The index was launched on September 30, 2015, and reconstructed using publicly available data dating back to 2004. The index encompasses approximately 20,500 loans and $514 billion in assets (as of September 30, 2025).

First lien loans have the highest priority of repayment in the event of default or liquidation scenarios and are generally secured by company assets.

Junior debt loans are subordinated loans that rank below senior debt but above equity in a company's capital structure. This debt is repaid only after all senior debt obligations are met.

<u>Non-accruals at cost value</u>: Represents the outstanding principal balance of the loans that have stopped interest recognition, typically those loans 90 or more days delinquent, divided by the original cost value of the loan (par).

<u>Non-accrual status:</u> For public BDCs and aligns with GAAP and FDIC regulatory guidance. Non-accrual status means a loan no longer earns interest due to doubt about collecting principal or interest. A loan generally enters non-accrual when it is 90 days past due, the borrower's condition has deteriorated enough to question full repayment, or it is placed on a cash-basis due to repayment concerns.

FTSE NAREIT All Equity REITs Index, a subset of the All REITs Index, is designed to track the performance of REITs representing equity interests in (as opposed to mortgages on) properties. It represents all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets, other than mortgages secured by real property that also meet minimum size and liquidity criteria.

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.

General disclosures

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