WELLS FARGO
Investment Institute

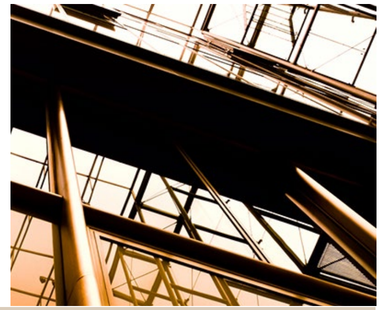
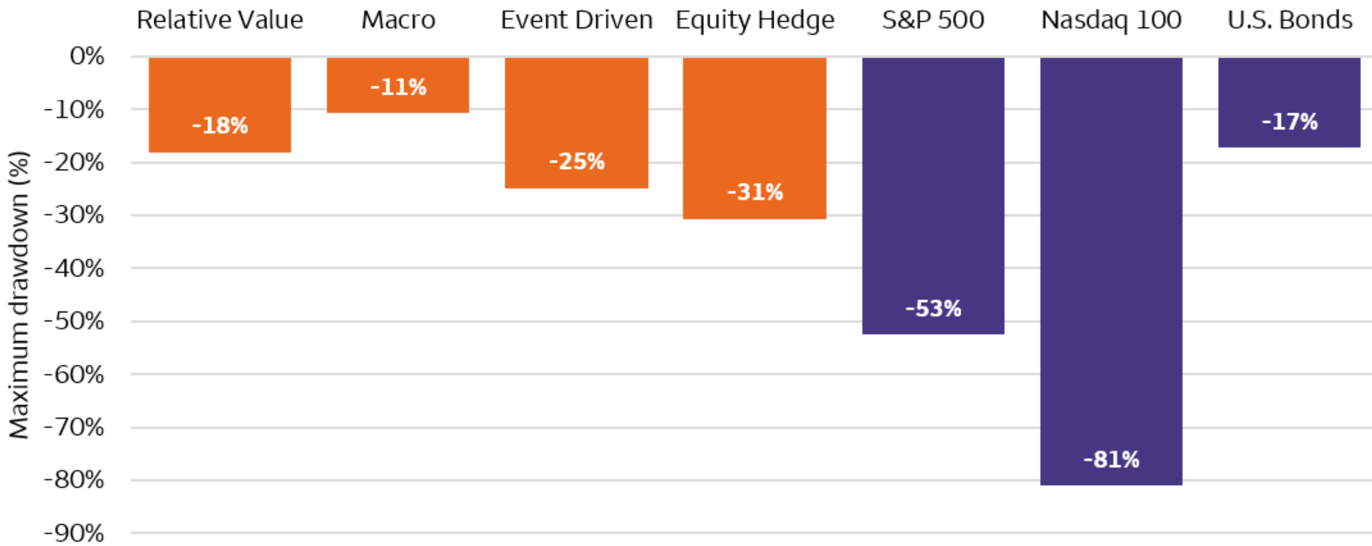


Chart of the Week

Weekly analysis of key themes in markets | **August 4, 2026**

Building portfolio resilience while markets shine



Source: Bloomberg. Data as of June 30, 2026. Monthly data from December 31, 1989, through June 30, 2026. Max drawdown is defined as the largest peak-to-trough decline over the time period listed (December 31, 1989 to June 30, 2026) for each of the respective benchmarks. Equity markets are represented by the S&P 500 Index and the Nasdaq 100 Index. Bond markets are represented by the Bloomberg U.S. Aggregate Bond Index. Hedge fund strategies are represented by the HFRI Relative Value Total Index (Relative Value), the HFRI Macro Total Index (Macro), the HFRI Event Driven Total Index (Event Driven), and the HFRI Equity Hedge Total Index (Equity Hedge). An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Strong markets can create opportunities to strengthen portfolios

We believe periods of strong market performance can be an opportunity to strengthen portfolio resilience. Bloomberg estimates, as of July 20, 2026, the S&P 500 Index is on pace to deliver its fourth consecutive year of returns exceeding 15%. Extended stretches of above-average equity returns are generally uncommon. Given the market's recent strong performance, we believe qualified investors may want to consider adding diversifying strategies that are less tied to movements of traditional stocks and bonds.

The chart highlights the largest peak-to-trough declines, known as maximum drawdowns, for several hedge fund categories alongside traditional equity and fixed-income benchmarks over the period from December 31, 1989, through June 30, 2026.

What it may mean for investors

While no investment strategy can eliminate risk, we believe qualified investors may want to consider combining hedge funds with a traditional stock and bond portfolio to potentially help navigate difficult market environments. We believe greater diversification may make portfolios resilient during market drawdowns and help investors stay focused on their long-term goals rather than reacting to short-term volatility.

Mark Steffen, CFA, CAIA *Global Alternative Investment Strategist*

Excerpted from Investment Strategy report (July 27)

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. **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.

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. 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. 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.

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

Definitions

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

HFRI Equity Hedge Total Index — Hedge Fund strategies primarily focused on equity securities and equity-linked derivatives. Sub strategies for these Sub-strategies include long/short, market neutral, fundamental, sector-oriented, and multi-strategy.

HFRI Event Driven Total Index — Hedge Fund strategies that invest in securities of companies involved in specific corporate transactions, including mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated and frequently involve additional derivative securities.

HFRI Macro Total Index – The macro index includes managers which execute a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, currency, and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom-up theses, quantitative and fundamental approaches and long and short-term holding periods.

HFRI Relative Value Total Index - Hedge Fund strategies focused on capturing the pricing discrepancies between related securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses. Security types range broadly across equity, fixed income, derivative or other security types.

NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The Index was developed with a base value of 125 as of February 1, 1985. Prior to December 21, 1998, the Nasdaq 100 was a cap-weighted index.

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.

Note: HFRI 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 HFRI 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.

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