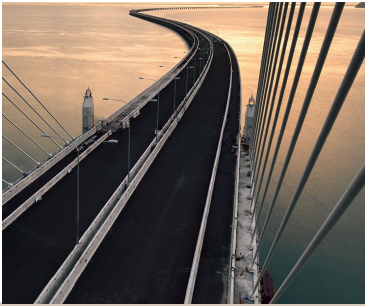


Investment Strategy



Weekly guidance from our Investment Strategy Committee September 8, 2026

Alternatives Spotlight: Private Credit – Direct Lending remains resilient2

- Direct lending remains resilient despite credit concerns, outperforming high-yield bonds, leveraged loans, and broad U.S. corporate bond market indexes during the first half of 2026.
- While risks could rise if economic conditions weaken or inflationary pressures lead to further increases in short-term interest rates, we maintain our neutral stance and remain constructive on the sub-strategy’s ability to navigate the current environment.

Equities: Materials’ pricing power offers an inflation buffer4

- Amid the prospect of rising inflation, we reiterate our favorable view on the Materials sector for its historical ability to offset inflation through pricing power.
- Selectivity matters, and within the sector we are favorable on the Industrial Gases, Construction Materials, and Specialty Chemicals subsectors.

Fixed Income: Technology bonds: Remain selective amidst sell-off5

- Over the past year, corporate bonds issued by companies involved in the build-out of data centers to power artificial intelligence (AI) have seen a dramatic sell-off.
- While valuations now overstate credit risk, sustained heavy issuance is likely to continue pressuring bond prices. Investors should keep exposure selective and short-dated.

Real Assets: Food inflation risks are re-emerging6

- Agricultural commodities have outperformed expectations in 2026, with wheat prices reaching their highest levels since 2022 as supply disruptions and rising input costs drive higher prices.
- We remain favorable on Commodities and believe broad commodity exposure can help hedge against ongoing food and energy inflation risks.

Current tactical guidance7

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

Alternatives Spotlight

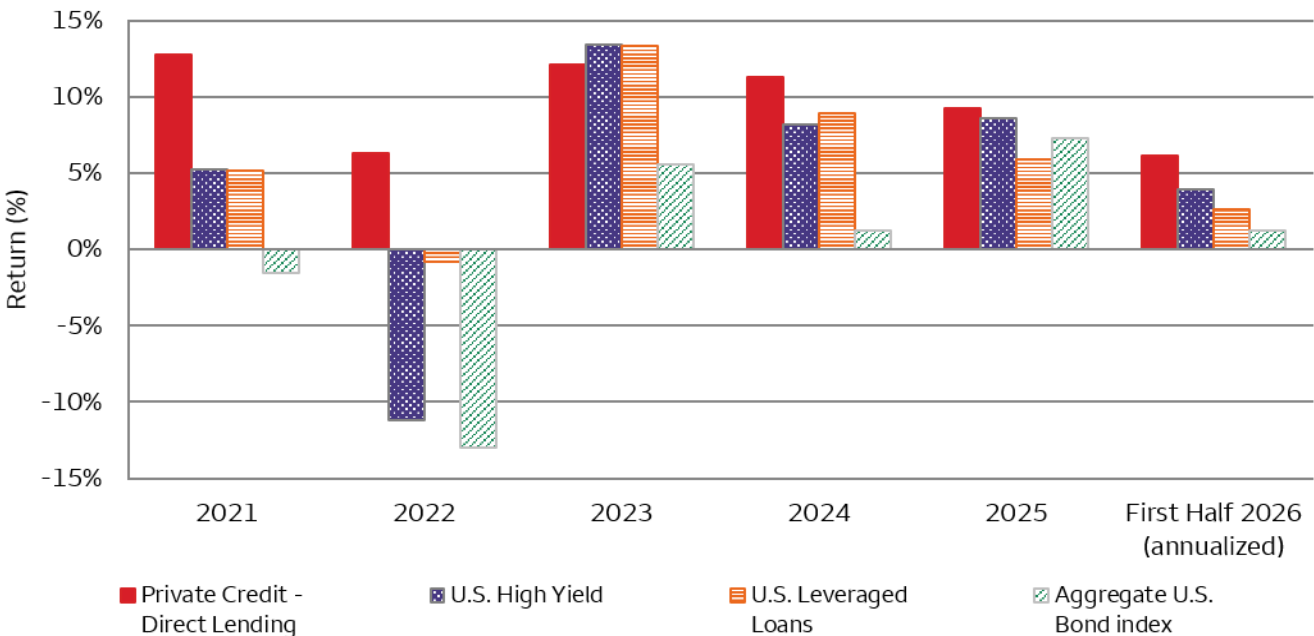
Mark Steffen, CFA, CAIA
Global Alternative Investment Strategist

Private Credit – Direct Lending remains resilient

Direct lending is a private debt strategy in which non-bank lenders provide loans directly to middle-market companies, typically businesses generating between \$10 million and \$1 billion in annual revenue. The private credit and direct lending market has expanded rapidly in recent years, with assets growing more than sixfold over the past decade to exceed \$1 trillion as of the fourth quarter of 2025.¹

Investors have grown more cautious about potential credit challenges as higher short-term interest rates increased debt-servicing costs for floating-rate borrowers and higher oil prices impacted margins in many industries. Separately, the rapid adoption of AI created uncertainty around the long-term outlook for many industries, particularly in certain technology and software sectors. As a result, some direct lending funds catering to high-net-worth investors experienced increased redemption requests as investors became more cautious about potential credit risks. Despite these headwinds, direct lending remained remarkably resilient through the first half of the year. The asset class outperformed several commonly used fixed income categories, including U.S. high-yield bonds, U.S. leveraged loans, and the broad U.S. bond market (see Chart 1). This performance further extended direct lending's long-term track record of outperformance, with private credit leading these fixed income categories in 14 of the past 21 calendar years through 2025.²

Chart 1. Comparing recent performance across private and public credit markets



Sources: Cliffwater and Wells Fargo Investment Institute. Data as of June 30, 2026. Returns shown are calendar-year returns for 2021 through 2025 and annualized year-to-date returns through June 30, 2026. Index returns are provided for illustrative purposes only and do not reflect the performance of any individual investment. An index is unmanaged and not available for direct investment. Private Credit - Direct Lending: Cliffwater Direct Lending Index; U.S. High Yield: Bloomberg U.S. Corporate High Yield Index; U.S. Leveraged Loans: Morningstar LSTA U.S. Leveraged Loan Index. **Past performance is no guarantee of future results.**

1. Preqin, "Future of Alternatives 2026," private credit assets under management, data as of December 31, 2025.
2. Cliffwater, 2026 Q2 Report on U.S. Direct Lending. Direct lending represented by the Cliffwater Direct Lending Index (CDLI).
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Credit concerns ease

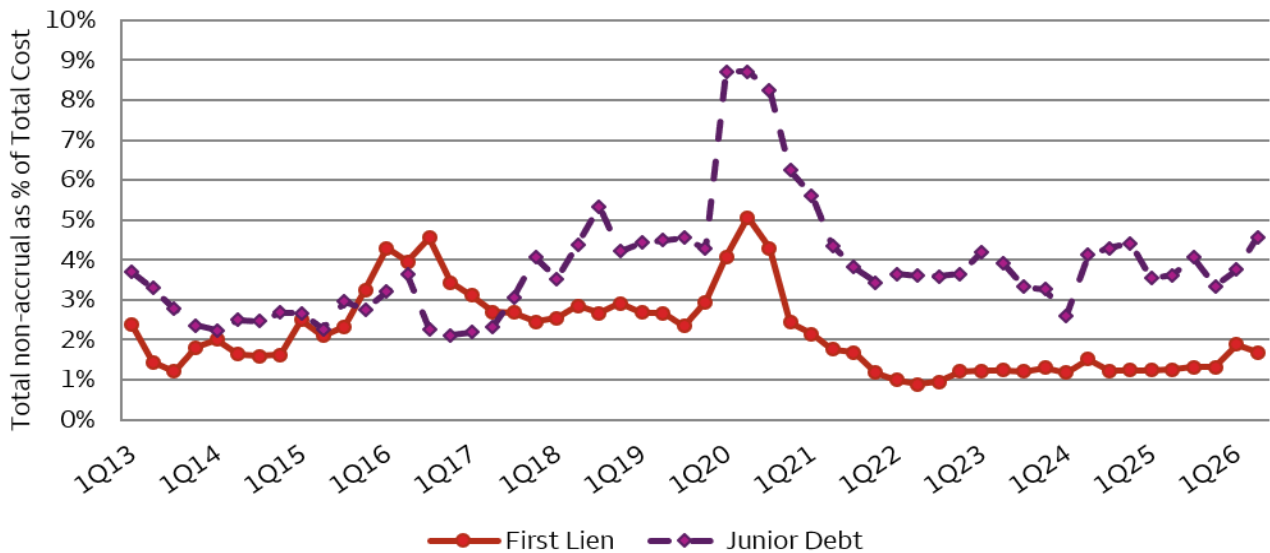
Strong performance during the first half of 2026 helped ease concerns about a broad deterioration in credit quality across the direct lending market. However, investors continue to monitor several potential risks. Persistent inflation could pressure the Federal Reserve to raise borrowing costs, which would hurt companies with floating-rate debt. In addition, ongoing geopolitical conflicts could contribute to higher energy prices, which may raise operating costs for many small- and mid-sized businesses.

Despite these challenges, credit conditions in the direct lending market remain relatively stable. One commonly used measure of credit quality is the non-accrual rate, which reflects loans that are generally more than 90 days past due. Non-accrual levels remain within historical ranges, suggesting that credit stress remains largely contained.³

It is also important to recognize that the direct lending market consists of two distinct segments: first lien debt and junior debt. First lien debt has the highest claim on a borrower's assets in the event of default and is generally considered the more conservative part of the capital structure. Over the past two decades, first lien lending has become an increasingly dominant portion of the market, growing from approximately 33% of direct lending assets at the end of 2004 to more than 87% as of June 30, 2026.

When analyzing credit performance across these segments, non-accrual rates have remained relatively low in the first lien market (see Chart 2). In contrast, junior debt has experienced higher non-accrual rates over time. This difference highlights the stronger credit characteristics and potentially less downside participation typically associated with first lien lending.

Chart 2. Direct lending non-accruals (defaults): First lien versus junior debt



Sources: Cliffwater and Wells Fargo Investment Institute. Data as of June 30, 2026. Q = quarter. Cliffwater Direct Lending Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

While concerns about private credit persist, we believe direct lending continues to offer compelling income potential and can play an important role in a diversified portfolio. However, investors should remain mindful of risks, as smaller and mid-sized borrowers could be more sensitive to a meaningful economic slowdown.

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.

3. Cliffwater, 2026 Q2 Report on U.S. Direct Lending. Direct lending represented by the Cliffwater Direct Lending Index (CDLI).
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Equities

Ian Mikkelsen, CFA

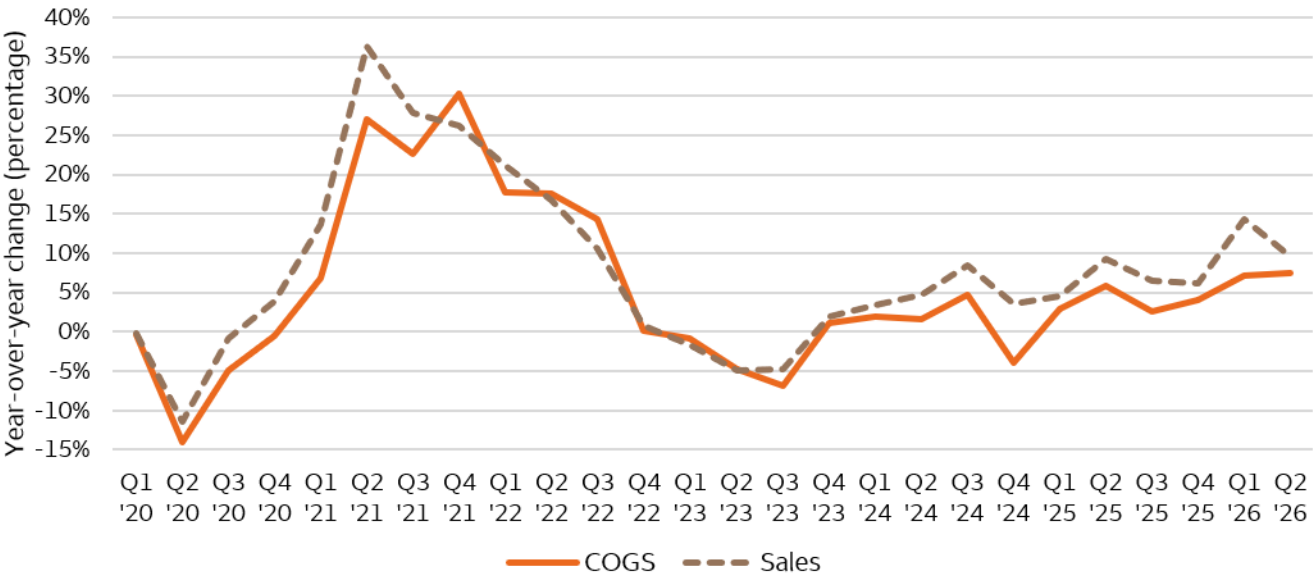
Equity Sector Analyst, Energy & Materials

Materials’ pricing power offers an inflation buffer

With the prospect of higher-for-longer interest rates and inflation coming into focus, one of the key attributes of the Materials sector that underpins our favorable view is its historical ability to effectively offset inflationary cost pressures by passing cost increases through to business customers. This may help shield equity portfolios from the near-term risks of accelerating inflation.

To illustrate, quarterly year-over-year changes in cost of goods sold and sales for the S&P 500 Materials sector highlight the sector’s historical ability to navigate inflationary pressures (see Chart 3). We use the period beginning in 2020 to demonstrate how the sector has fundamentally performed through some extraordinary conditions, including the initial demand shock at the onset of COVID-19, subsequent supply chain shortages, rapid inflation that persisted well into 2022, and extended pressure from the Russia-Ukraine war.

Chart 3. S&P 500 Materials sector sales versus cost of goods sold (year-over-year change)



Sources: FactSet and Wells Fargo Investment Institute. Data as of June 30, 2026. Historical values are blended using each company's current weighting within the S&P 500 Materials sector. COGS = Cost of goods sold. Q1 = first quarter. Q2 = second quarter. Q3 = third quarter. Q4 = fourth quarter. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

The key takeaway is that the sector has consistently been able to outpace rising costs of goods sold through sales growth. While sales and costs have both been highly volatile for Materials companies over the past several years, gains in sales growth have been more persistent and durable relative to costs for the sector as a whole.

Selectivity remains important, and the risk of higher-for-longer interest rates could pressure demand in some key end markets, such as residential construction, automotive, and other consumer durables. Under this backdrop, we generally favor companies with demonstrated pricing power and diversified end-market exposure, and we are favorable on the Industrial Gases, Construction Materials, and Specialty Chemicals subsectors.⁴

4. For more details, see our Sector Insights report, “Got Pricing? Materials sector outlook,” August 17, 2026.

Fixed Income

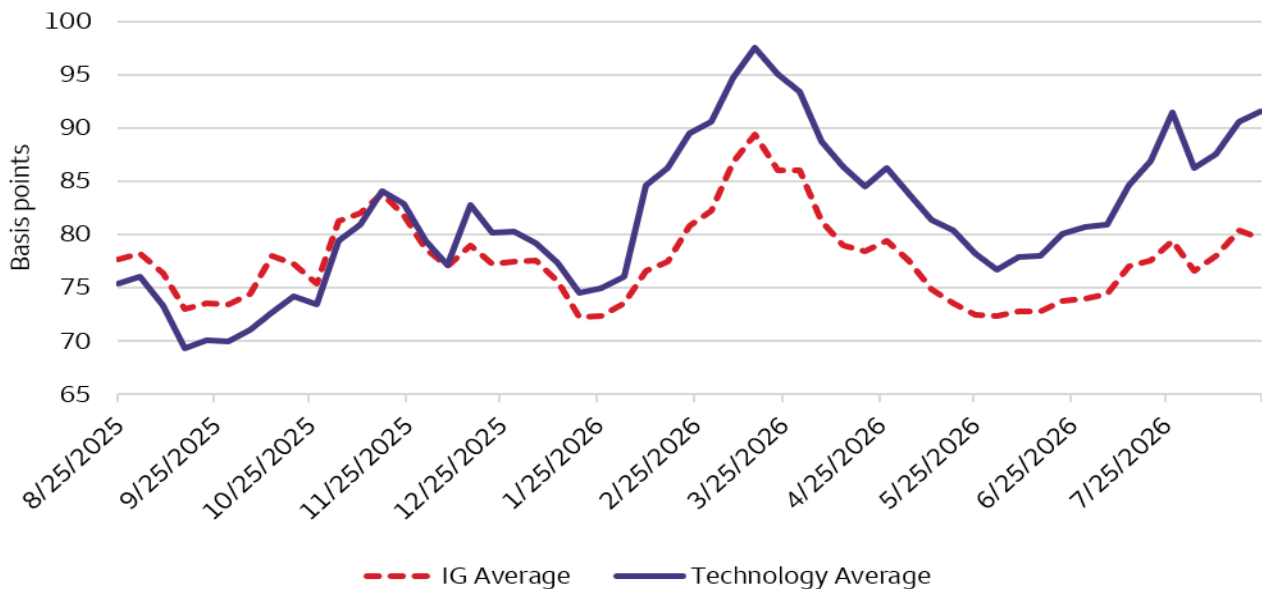
Eric M. Jasso, CFA
Taxable Analyst

Technology bonds: Remain selective amidst sell-off

Last year, we highlighted that credit profiles among companies developing data centers to power AI, known as “hyperscalers,”⁵ were entering a phase in which credit profiles would decline as debt leverage rose and capital expenditures outpaced profitability.⁶ Given tight spreads and a lack of visibility on free cash flow (FCF; amount of cash left over after expenses) prospects from AI development, we viewed this group as unattractive relative to others within investment grade. That call has now largely played out, as spreads among related issuers have widened by 25 to 90 basis points (bps; 100 bps equals 1.00%), reaching levels more consistent with much lower-rated bonds.

Given the substantial sell-off, we are now taking a more neutral approach that prioritizes selectivity among issuers and a focus on short- and intermediate-term maturities, consistent with our broader duration (a measure of a bond’s interest rate sensitivity) guidance. Technical pressures are likely to persist through 2027 as hyperscalers continue issuing substantially more debt than the bond market is accustomed to absorbing, particularly longer-dated maturities. However, investors are likely to get better visibility into key fundamental uncertainties like model-builder profitability, enterprise AI monetization, compute supply-demand balance, and a return to FCF. Over time, we may see an opportunity in beaten-down, long-duration hyperscaler bonds if we get some combination of 1) higher conviction on the fundamentals, 2) a favorable duration environment, and 3) easing technical pressures. For now, we believe investors should focus on attractive yields in short- and intermediate-duration bonds, which carry meaningfully lower risk.

Chart 4. Investment-grade technology bonds have substantially underperformed



Sources: Bloomberg and Wells Fargo Investment Institute. Data reflects weekly average credit spreads, measured in basis points, for the Bloomberg U.S. Corporate Investment Grade (IG) Index and its technology sector issuers between August 25, 2025, through August 24, 2026. An index is unmanaged and not available for direct investment. **Past performance does not guarantee future results.**

5. Hyperscalers, also known as hyperscale cloud providers, are companies who develop and operate networks of data centers to facilitate cloud computing.
6. See our *Investment Strategy Report*, “Fixed Income: Tech bonds do not reward investors for heavy AI spending,” October 6, 2025.
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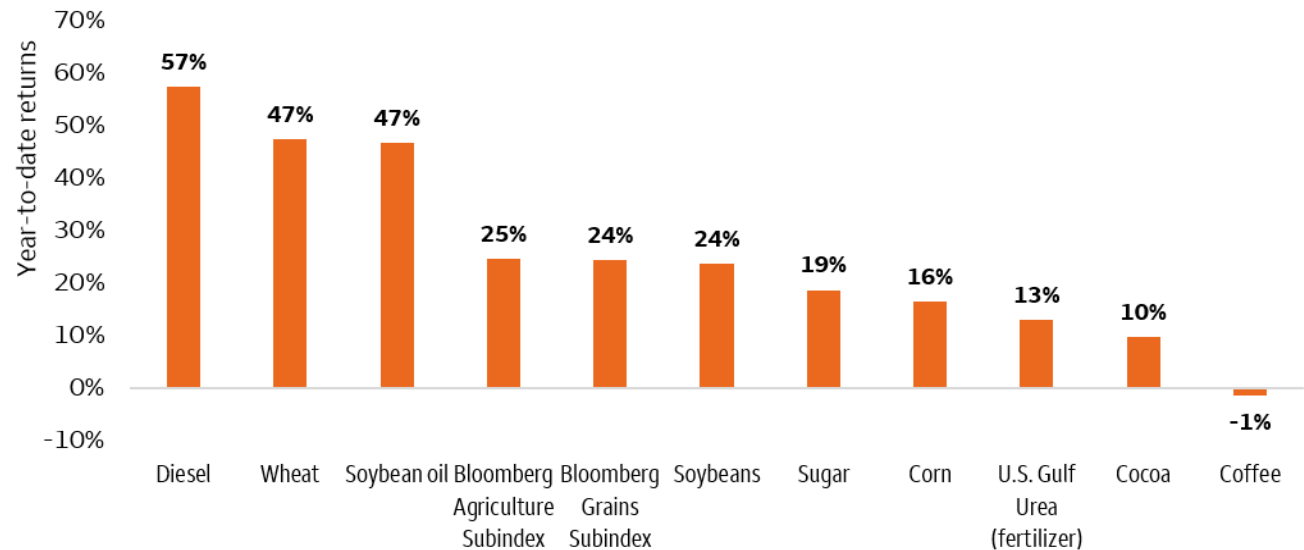
Real Assets

Mason Mendez
Global Real Assets Analyst

Food inflation risks are re-emerging

Growing disruptions in grain exports and elevated production costs are creating global supply concerns that support our favorable outlook on Commodities. For investors concerned about rising food and energy costs, agriculture markets are offering a reminder of how quickly supply risks can emerge. Entering 2026, investors expected ample global supply to keep agricultural prices contained. Instead, wheat prices have surged to their highest levels since 2022 (as of August 31, 2026) and nearly every major agricultural commodity is posting double-digit gains (see Chart 5).

Chart 5. Rising input and agriculture prices



Sources Bloomberg and Wells Fargo Investment Institute. Return data is from December 31, 2025, through August 31, 2026. Diesel – AAA National Average Diesel Price. Fertilizer – US Gulf NOLA Urea Granular Spot Price. Wheat, soybean oil, soybeans, sugar, corn, cocoa, and coffee are based on the generic front month future price as of August 31, 2026. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

One of the biggest concerns is the Black Sea region, a critical export hub for global grain markets. Russia and Ukraine together accounted for roughly 30% of global wheat exports in 2025, with most shipments moving through the Black Sea. Since July, however, escalating attacks on grain terminals and shipping infrastructure have disrupted exports, raising concerns about whether supply can efficiently reach global markets and intensifying competition among importing countries for supply.

Energy markets have also played a key role in the rally. Elevated costs for diesel, fertilizer, and other farm inputs have increased production expenses across the agricultural sector, creating production headwinds for farmers and supporting higher crop prices. While crude oil prices have moderated from their summer highs, refined products remain expensive, due to multi-year low inventories, reduced global refining utilization, and logistical difficulties sourcing the necessary feedstocks.

In our view, these risks are unlikely to disappear anytime soon as the path towards a resolution in the Russia-Ukraine war remains unclear, and ongoing refining challenges drive elevated input costs for producers. For investors, maintaining a broad commodity exposure offers a way to hedge against further increases in food and energy prices. We remain favorable on Commodities and view pullbacks as opportunities to add exposure given our forecasts for additional upside in the Bloomberg Commodity Index through 2027.

Tactical guidance*

Cash Alternatives and Fixed Income

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	Developed Market Ex-U.S. Fixed Income U.S. Long Term Taxable Fixed Income	Cash Alternatives Emerging Market Fixed Income High Yield Taxable Fixed Income U.S. Intermediate Term Taxable Fixed Income	U.S. Short 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. Mid Cap Equities	U.S. Large Cap Equities	

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Digital Assets Private Real Estate	Commodities 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, September 8, 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. **First-lien debt** holds the highest legal priority to be repaid from a borrower's collateral, whereas junior debt ranks below senior obligations and is paid only after higher-tier creditors are fully satisfied. 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. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management.

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.

Cryptocurrency and other digital assets often involve significant risks and can be highly volatile. Their value may fluctuate substantially, and investors could lose all or a significant portion of their investment. Digital assets may be subject to market, liquidity, regulatory, and operational risks and may be subject to heightened risks of fraud, cyber incidents, and market manipulation. Digital assets may not provide the same regulatory protections as traditional investment products and often are not insured by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC), or any government agency. Investors should carefully consider their investment objectives, risk tolerance, and financial circumstances before investing in cryptocurrency or other digital assets.

Definitions

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 Agriculture Subindex measures the performance of agricultural commodity futures.

Bloomberg Grains Subindex measures the performance of grain-related commodity futures and is a component of the Bloomberg Commodity Index.

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

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index measures the US dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg emerging market country definition, are excluded.

Cliffwater Direct Lending Index: The 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 was reconstructed using publicly available data dating back to 2004. The index encompasses approximately 22,959 loans and \$552 billion in assets as of June 30, 2026.

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.

S&P 500 Materials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

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.

Total non-accruals as a percentage of total cost: 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 loans (par).

Non-accrual status: 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.

An index is unmanaged and not available for direct investment.

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