WELLS FARGO
Investment Institute

December 2025

2026 Outlook

Trendlines over headlines

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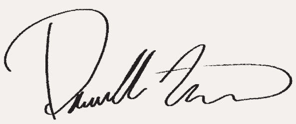

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"Successful investing takes time, discipline, and patience. No matter how great the talent or effort, some things just take time."

— Warren Buffett

When negative headlines prevail, readers often reach reflexively for Murphy's Law and a "Well, that figures" shrug. Even good news in abundance can prompt a squint to find the negatives that must be in there somewhere.

2025 certainly created lots of headline fatigue around rapid and sometimes abrupt changes, both in government policies and in the technological revolution that is artificial intelligence (AI). But we are looking through the headlines and see economic and policy trends that should drive the economy and capital markets in 2026. An important goal of our 2026 Outlook report is to present those contours and explain how we see them as not only durable, but also reinforcing each other. To be blunt, it seems time to give old Murphy a rest.

Policy changes may remain prominent, particularly the Federal Reserve's (Fed's) path of further interest-rate cuts. But we are looking past the headlines about membership on the Fed's Board of Governors, to focus on the historically rare but positive signal of rate cuts in an already growing economy. Likewise, we see tariff impacts as diffused and less potent for markets than the positive duo of deregulation and tax cuts that are already in place.

Spending to develop AI also looks set to grow and broaden across sectors, in our view. Some market volatility could develop as investors periodically test whether AI-related profitability is still meeting expectations. In such cases, we expect new opportunities across a widening group of sectors, as the transformation that AI is leading touches almost every area of our lives.

These trends could be mutually reinforcing. Business tax cuts for capital spending should promote business expansion and modernization. Lower borrowing costs could reinforce this expansion to promote hiring and raise worker productivity. In turn, workers who can produce more in a day can lower average costs and limit price inflation. These positive convergences should increase equity market breadth, reinforce margin and earnings growth, and bolster business and consumer spending.

2026 may still bring market pullbacks, and sometimes the headlines do bring genuine negative surprises. But our outlook for the next year hinges on some unusually complementary trends already in place. The following pages offer our highest-conviction investment ideas around this theme, and we will watch for new opportunities as the year progresses.

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1. Alternative investments are not appropriate for all investors and are only open to "accredited investors" or "qualified investors" within the meaning of U.S. securities laws.

Please see pages 29 – 31 for important definitions and risk considerations.

Economic and market forecasts

GLOBAL ECONOMY	LATEST	2026 TARGETS
U.S. GDP growth	2.3% (Q2)	2.4%
U.S. inflation[1]	3.0% (Sept.)	2.8% (Dec.)
U.S. unemployment rate[2]	4.3% (Sept.)	4.9% (Dec.)
Global GDP growth[3]	3.6% (Q2)	2.5%
Global inflation[3]	3.5% (Q3)	2.8%
Developed market GDP growth[4]	1.8% (Q2)	1.7%
Developed market inflation[4]	3.4% (Q3)	2.5%
Eurozone GDP growth	1.4% (Q3)	0.9%
Eurozone inflation[1]	2.1% (Oct.)	1.8% (Dec.)
Emerging market GDP growth	4.9% (Q3)	3.0%
Emerging market inflation	3.6% (Q3)	3.0%

Sources: Wells Fargo Investment Institute and Bloomberg. All latest numbers from Bloomberg as of November 28, 2025. Targets for 2026 are based on forecasts by Wells Fargo Investment Institute as of December 9, 2025 and provide a forecast direction over a tactical horizon. **Average percent change from the same period a year ago, unless otherwise noted.** GDP = Gross Domestic Product. CPI = Consumer Price Index. Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter. 1. Twelve-month changes, as of the month indicated. 2. Three-month average as of the date indicated, percent of labor force. 3. Weighted average of developed country and emerging-market forecasts. 4. Weighted average of U.S. and other developed-country forecasts. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

GLOBAL EQUITIES	LATEST	YEAR-END 2026 TARGETS
S&P 500 Index	6,849	7,400 – 7,600
S&P 500 EPS	$274	$300
Russell Midcap Index	3,862	4,200 – 4,400
Russell Midcap EPS	$196	$215
Russell 2000 Index	2,500	2,500 – 2,700
Russell 2000 EPS	$72	$85
MSCI EAFE Index	2,810	2,800 – 3,000
MSCI EAFE EPS	$167	$175
MSCI Emerging Markets (EM) Index	1,367	1,350 – 1,550
MSCI EM EPS	$89	$90

Sources: Wells Fargo Investment Institute and Bloomberg. Latest index level data from Bloomberg as of November 28, 2025. Latest EPS (earnings per share) figures are 2025 year-end consensus estimates as of November 28, 2025. All targets for 2026 are based on forecasts by Wells Fargo Investment Institute as of December 9, 2025, and provide a forecast direction over a tactical horizon through 2026. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

GLOBAL FIXED INCOME	LATEST	YEAR-END 2026 TARGETS
10-year U.S. Treasury yield	4.01%	4.00% – 4.50%
30-year U.S. Treasury yield	4.66%	4.50% – 5.00%
Federal funds rate	3.75% – 4.00%	3.00% – 3.25%

GLOBAL REAL ASSETS	LATEST	YEAR-END 2026 TARGETS
WTI crude oil price ($ per barrel)	$59	$65 – $75
Brent crude oil price ($ per barrel)	$63	$70 – $80
Gold price ($ per troy ounce)	$4,239	$4,500 – $4,700
Bloomberg Commodity Index	277	270 – 290

WTI = West Texas Intermediate and is a grade of crude oil used as a benchmark in oil pricing.

CURRENCIES	LATEST	YEAR-END 2026 TARGETS
Dollars per euro exchange rate	$1.16	$1.10 – $1.14
Yen per dollar exchange rate	¥156	¥148 – ¥152
Dollar composite exchange rate[5]	99	98 – 102

Sources: Wells Fargo Investment Institute and Bloomberg, as of November 28, 2025. Targets for 2026 are based on forecasts by Wells Fargo Investment Institute as of December 9, 2025, and provide a forecast direction over a tactical horizon. 5. The ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, composed of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc. A higher index value indicates dollar appreciation. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

Economic growth signals over noise

KEY TAKEAWAYS

- We believe tariff impacts may slow the economy and nudge inflation higher coming into 2026, before positive policy and technology spending trends reverse those conditions into year-end. The economic improvement should support financial markets through the year.
- We view the U.S. economy as the engine of global economic expansion in 2026, and that leadership should stabilize the dollar's value and provide some modest appreciation by year-end.

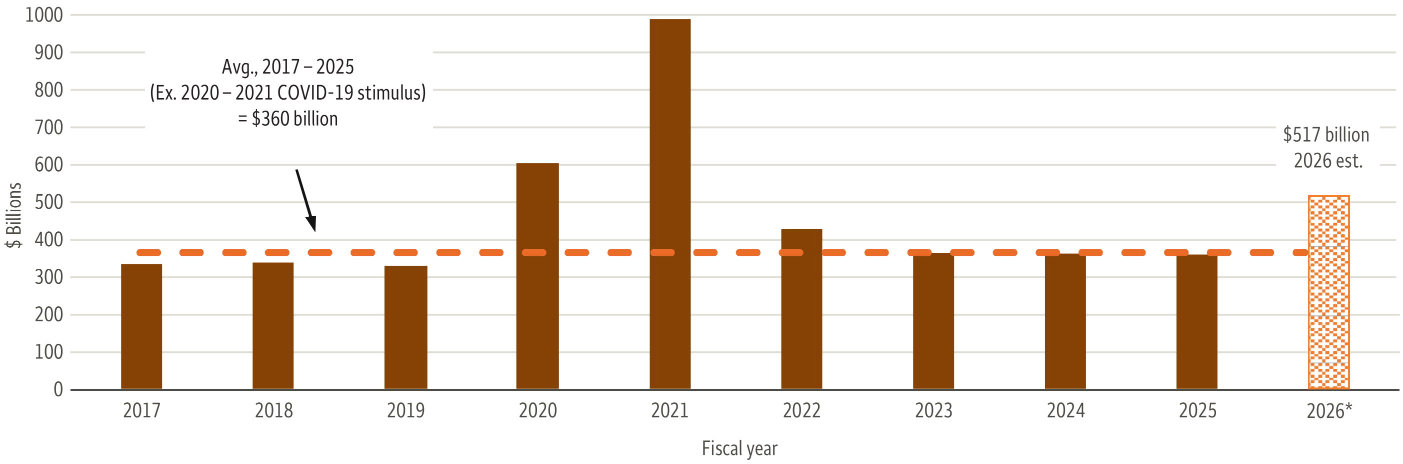
WHAT IT MAY MEAN FOR INVESTORS

- Our view is that a comparatively favorable U.S. economic outlook should drive U.S. financial-market outperformance compared with overseas markets.

In our view, the negative economic impact of tariff and immigration policies is weaker than the positive impact potential we observe in other policies. The accumulated tariffs may restrain economic growth and bump inflation temporarily higher early in the year. And reduced immigration limits labor supply and should push wages higher through 2026. But we believe momentum in infrastructure and business capital spending seems stronger. First, the economy should benefit from lower short-term interest rates that, in turn, foster adequate market liquidity (i.e., cash) to support growth. Second, the cumulative cost savings from deregulation should become increasingly apparent as 2026 progresses. Third, we see the ripple effects of AI-related investment broadening — to data centers, power, and other ancillary industries — and horizontally across end-user sectors throughout the economy. Any growth and inflation clouds to start the year should clear as 2026 progresses.

Finally, we expect the tax cuts that began in 2025 to offer large cash infusions in the early-year tax season (see chart on page 7) and, in turn, spur incremental capital spending. We believe the tax incentives can help broaden capital expenditure (capex) strength in the coming months beyond the AI-related buildout to the industrial backbone of the economy. Reshoring overseas production to the U.S. and increased foreign investment (a condition of some trade deals) may help, but perceptibly positive impacts have yet to emerge.

2026 tax refunds poised to boost consumer spending



Sources: Wells Fargo Investment Institute, U.S. Treasury, and Strategas. *2026 estimate sourced from Strategas. As of October 13, 2025.

We think the interactions among these expected trends will strengthen their impact. The lift to productivity from deregulation, investment tax cuts and AI spending should combine with added investment spending from lower funding costs in allowing workers to produce more in a day and at a lower average unit cost. And even a smaller supply of workers encourages more investment. Ultimately, higher productivity typically brings higher wages and business profits without aggravating inflation.

From the household spending side, personal tax cuts, lower borrowing costs, and financial-market gains should drive consumer spending, especially (but not exclusively) led by upper-income households. Layoffs have increased in some sectors but not in all. We think the lack of available workers is a key factor impacting labor market weakness and should support wage growth for lower-income households. However, the signals for consumer spending likely will not be uniformly strong: We believe that a modest housing recovery will lag by comparison as elevated home values limit support to affordability from modestly lower mortgage rates.

Disinflation's return after a bumpy start to 2026

Some disinflationary pressures that prevailed for most of 2025 may be easing, just as tariff impacts arrive, but our inflation outlook remains constructive for investors. Retailers have clearly passed more tariffs through to consumers, and consumer price data show firmer food and energy prices and resilient inflation across most services. Also, we believe a smaller pool of available workers may begin to put upward pressure on wage inflation in certain industries more reliant on foreign-born workers, such as agribusiness, construction, food service, hospitality, and in-home health care.

However, there are important offsets that we think can cool inflation through 2026. Importantly, the number of trade deals and exceptions granted on tariffs may draw out tariff-related inflation. Tariff policy in 2026 could be extended further for legal reasons and give companies and consumers more time to adjust and offset the impact. The U.S. Supreme Court decision on the legal basis of some tariffs could dilute tariff impacts by delaying their imposition as substitute legislation slowly is implemented. And we believe dominant big-box retailers will continue to decide selectively on tariff-related price increases based on customer sensitivity, limiting the upward pressure on trade-sensitive consumer goods inflation. We also expect restraint in rental price increases and productivity gains to undercut inflation pressure.

Global economies and currencies trail the U.S. locomotive

We expect that U.S. economic strength will be enough to support a more modest growth recovery abroad. The U.S. boasts structural advantages, including a dynamic technology sector, less reliance on exports, and comparatively more favorable demographic and financial markets. Overseas governments also face potentially more acute debt and deficit problems than the U.S. (especially in parts of Europe), credit tightening (specifically, in Japan), and closer proximity to violent conflict. We see only limited scope for monetary policy support to ease these risks.

We also believe that China's spending focus on AI neglects now chronic underperformance and default risks in China's consumer and manufacturing sectors. Also, the full impact of U.S. tariff increases on the group's exports and a firmer U.S. dollar may limit cash availability. Fortunately, the tech boom is accelerating China's outsourcing of lower-value manufacturing to other Asian economies, which helps rebalance regional growth.

We believe the balance of these factors should favor U.S. dollar stability in foreign exchange markets and a modest appreciation by year-end. A stable to slightly firmer dollar also may indirectly weigh on exchange rates by creating a headwind for commodity prices, most of which are priced in U.S. dollars.

Focus on the durable themes

KEY TAKEAWAYS

- We expect that accelerating economic growth, lower short-term interest rates, and subdued inflation will support sales, margins, earnings growth, and equity returns in 2026.
- We expect stock prices to continue to look beyond the noise of a midterm election year and to march higher, driven primarily by earnings growth rather than price-to-earnings (P/E) valuation expansion.

WHAT IT MAY MEAN FOR INVESTORS

- We rate U.S. Large Cap Equities and U.S. Mid Cap Equities as favorable, compared with an unfavorable rating on U.S. Small Cap Equities. Within international equities, we hold a neutral rating on both Developed Market (DM) ex-U.S. Equities and Emerging Market (EM) Equities.

FAVORED ASSET CLASSES

- U.S. Large Cap Equities
- U.S. Mid Cap Equities

FAVORED EQUITY SECTORS

- Financials, Industrials, Utilities

FAVORED SUB-SECTORS

- Financials: Capital Markets, Diversified Banks, Insurance Brokers, Multi-Sector Holdings, Transaction & Payment Processing Services
- Industrials: Aerospace & Defense; Trading Companies & Distributors; Machinery; Electrical Equipment
- Utilities: Electric Utilities, Independent Power & Renewable Electricity Producers, Multi-Utilities

Please see pages 29 – 31 for important definitions and risk considerations.

2026 earnings should pick up steam

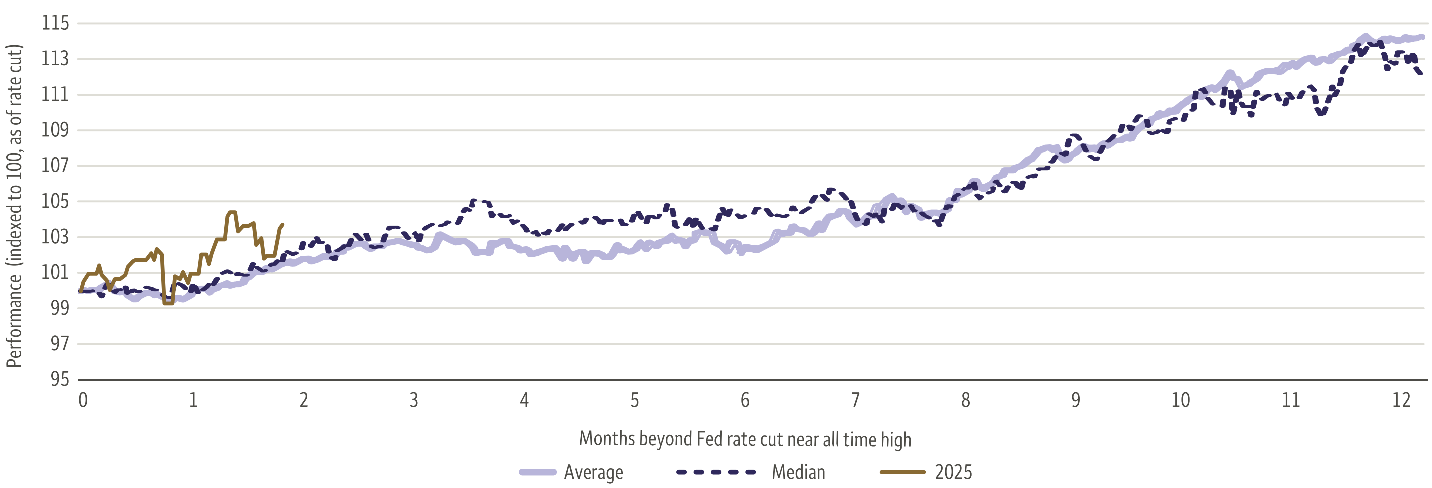
In our view, the equity market gains in a narrow group of large Information Technology and Communication Services companies, represent the initial stage of a seismic change in how we all use technology. Globally, AI should help reinforce the growing cybersecurity effort. Unlike other transformative technologies, AI does not so much replace existing technologies as it enhances existing technologies to drive higher productivity gains for nearly all businesses and personal applications, especially as an aging workforce drives business demand for ways to replace increasingly scarce human labor. The cost discipline that many firms established in the early days of tariff uncertainties also should add to productivity gains and profit margins.

What can fuel such fundamental change? We expect deregulation and extensive tax cuts to buoy consumer spending and to encourage business spending to broaden from AI to infrastructure and other sectors. In addition, Fed interest rate cuts have been a positive tailwind historically for equity-market performance, especially when the Fed cut interest rates while the S&P 500 Index was near all-time highs. Of the 20 such cases since 1984, the 12-month forward performance was positive 100% of the time with an average return of around 15% (see chart below). (Of course past performance is not a guarantee of future results.) While no two periods are the same, we do see the supports next year for stocks reinforcing this historical tendency.

We acknowledge investor concerns about high valuations in the S&P 500 Index and its largest sectors. While market valuations are high based on history, we believe the equal-weighted S&P 500 Index is more conservatively valued. Just as important, if business spending increases as we anticipate — not just in AI — earnings should rise and bring down valuations.

We believe U.S. mid-cap companies broadly should continue to benefit from the modest Fed interest rate-cutting cycle already underway. Lower short-term interest costs increase profit margins, which have been significantly lower for smaller businesses than for S&P 500 companies. As of October 31, 2025, the S&P 500 Index after-tax profit margin is around 14% whereas the Russell Midcap Index and Russell 2000 Index are roughly one-half and one-third of that, respectively. With this key stress easing, we also expect a positive response from earnings in these other asset classes.

Excellent S&P 500 Index return track record when Fed cuts rates near all-time highs



Sources: Bloomberg and Wells Fargo Investment Institute, as of November 11, 2025. Daily data November 7, 1984 – November 11, 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.**

Quality lean reduced but remains

While the corporate operating environment is likely to improve generally, we are not yet signaling the “all clear” for the riskiest areas of the equity market. For example, while lower short-term borrowing costs should remove an obstacle for small caps, our expectations for an economic soft patch to extend into early 2026 and fewer workers looking for jobs likely will weigh more on this asset class. What’s more, smaller companies have more difficulty managing tariff uncertainty, and while reduced borrowing costs are beneficial, rates remain well above pre-pandemic levels. Additionally, nearly 45% of the constituent companies in the Russell 2000 Index grapple with negative earnings, well above the proportion of nonearners in the Russell Midcap Index (17%) and S&P 500 Index (6%). Small companies depend relatively more on credit, which means the group is particularly sensitive to any economic sluggishness. Therefore, we remain tilted toward high quality that we perceive in U.S. Large Cap Equities and U.S. Mid Cap Equities.

The quality lean keeps us more favorable on the U.S. markets than overseas competitors. DM ex-U.S. Equities offer investors access to quality companies outside the U.S. at relatively inexpensive valuations, in our view. The MSCI EAFE Index’s (our benchmark) leverage ratios such as debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) are almost identical to those of the S&P 500 Index, but its price-to-earnings valuation was at a roughly 35% discount, as of October 31, 2025. For now, we are comfortable at neutral, that is, a full allocation, because cheap valuations and poor market sentiment reduce downside risk. However, a stable U.S. dollar could mute DM ex-U.S. Equities’ return potential while the relatively weaker earnings growth outlook and poor historical earnings track record are headwinds.

We also hold a neutral rating on EM Equities. The MSCI Emerging Markets Index has transitioned from a commodity-based and low-cost manufacturing focus to emphasize local consumption and technology sectors, including AI. Specifically, the Chinese government subsidizes the development of AI as a national-security issue. We believe the MSCI Emerging Markets Index is expensive relative to recent history but has been reconstituted into more of a tech-heavy index and still sells at a significant discount to the U.S. tech-heavy S&P 500 Index at the time of this writing. As investors look elsewhere for AI exposure at cheaper valuations, we expect emerging markets to benefit while the Fed easing cycle and a modest global economic growth recovery likely serve as additional tailwinds. Elevated geopolitical and regulatory risk along with other structural hurdles, especially in China, remain considerable headwinds that preclude a more constructive stance.

Sector preferences — positioning for a reacceleration

We prefer cyclical sectors over defensive and consumer-oriented sectors because of favorable trends accelerating economic growth, falling short-term interest rates, deregulation, tax cuts, long-term secular growth themes driven by AI, and broader business-capital spending.

The mix of cyclical sectors we currently favor include Financials, Industrials, and Utilities. Financials will likely benefit from a widening spread between short- and long-term interest rates, deregulation, accelerating M&A activity, plus likely low rates of delinquency and default in their credit portfolios. Industrials should see higher earnings from the significant buildout of AI infrastructure, including data centers, attempts to reshore manufacturing to the U.S., as well as tax cuts. Strong electrification demands are transforming Utilities from a defensive sector into a growth sector.

Our unfavorable sectors include the traditionally defensive sectors: Consumer Staples and Health Care that are likely to underperform as stocks move higher. We are also unfavorable on the Consumer Discretionary sector as consumer price levels remain much higher than only a few years ago and lower-income consumers struggle with elevated debt levels and the high cost of essentials.

We expect 2026 to offer a broadening array of themes, although the buildout phase of AI likely will remain front and center. We believe a few key principles are important here. First, within the Information Technology sector, we expect the favorable impact to remain concentrated within a limited number of companies in Semiconductors, Systems Software, and a few examples in other areas. We still see a handful of very large companies spending heavily on the underlying technology and reaping the rewards both in terms of incremental revenues and improved productivity. Thus, while we typically like to provide guidance along sub-industry lines, here we remain focused on allocating toward the largest and most established players across the ecosystem. We do not yet have the visibility to call for broader participation at the application layer, at least among public companies.

Moving outward from this area, we are attracted to some of the key enablers of the capital-formation cycle. This would include Electric Utilities, Electrical Equipment, and Diversified Banks. The bulge of data-center and power-generation construction projects taking place across the country, and indeed across the globe, continues to pull in an increasing number of industries and companies. We believe those that provide essential equipment and services to feed this demand will remain well-positioned in 2026. In addition, as the incremental support for this dynamic increasingly comes from the private equity and debt issuance, we see additional opportunities for Capital Markets.

However, we caution investors not to remain solely focused on AI. We expect stronger economic growth next year aided by favorable tax policy changes and Fed interest-rate cuts along with the broader positive impact from AI investment. In addition, we expect the negative impact of tariffs on earnings to ebb. We believe these factors should support improving prospects for areas we would describe as quality cyclicals. These would include Machinery, Diversified Banks, portions of the Semiconductors complex, and Construction Materials.

Lastly, we stress that portfolio balance is important. Most of the areas we outline lean into cyclical and secular growth themes. Quality as a factor and a style had a difficult year in 2025. Yet, we still expect many companies that fit this style to generate consistent profit growth over the medium and long term, even if they might not be the most thematic at the current moment. Within our favored and neutral-rated sectors, we highlight Transaction & Payment Processing Services, Aerospace & Defense, Multi-Sector Holdings, and Specialty Chemicals as places to search for consistency and diversification.

Equity sub-sector preferences

SECTOR GUIDANCE		SUB-SECTOR GUIDANCE	
GUIDANCE	**SECTOR**	**FAVORABLE**	**UNFAVORABLE**
MOST FAVORABLE	Financials	Capital Markets; Diversified Banks; Insurance Brokers; Multi-Sector Holdings; Transaction & Payment Processing Services	Business Development Companies; Life & Health Insurance; Mortgage Real Estate Investment Trusts (REITs); Regional Banks
FAVORABLE	Industrials	Aerospace & Defense; Trading Companies & Distributors; Machinery; Electrical Equipment	Cargo Ground Transportation; Passenger Airlines
	Utilities	Electric Utilities; Independent Power & Renewable Electricity Producers; Multi-Utilities	Water Utilities
NEUTRAL	Communication Services	Interactive Home Entertainment; Interactive Media & Services	Alternative Carriers; Publishing
	Energy	Integrated Oil; Midstream Energy	Refining
	Information Technology	Semiconductors; Semiconductor Materials & Equipment; Software	Communications Equipment
	Materials	Construction Materials; Industrial Gases; Specialty Chemicals	Containers & Packaging
	Real Estate	Data Center REITs; Industrial REITs; Self-Storage REITs; Telecommunications REITs	Diversified REITs; Lodging/Resort REITs; Office REITs; Specialty REITs; Timberland REITs
UNFAVORABLE	Consumer Discretionary	Broadline Retail; Hotels, Restaurants & Leisure; Specialty Retail	Leisure Products
	Health Care	Health Care Equipment & Supplies; Life Sciences Tools & Services	Health Care Services
	Consumer Staples	Beverages; Consumable Staples Merchandise Retail; Household Products	Tobacco

Source: Wells Fargo Investment Institute – sector guidance by Global Investment Strategy and sub-sector guidance by Global Securities Research as of December 9, 2025.

Yield stability over headline hype

KEY TAKEAWAYS

- Amid slow job growth but an improving economic outlook, we believe the Fed will carefully parse the economic data to maintain its statutory goals of full employment and price stability to the exclusion of political noise surrounding the Fed board's membership.
- We prefer to focus on the signal embedded in the yield curve's steepening shape, pointing to a wider spread between short- and long-term rates, rather than the noise created by near-term volatility.

WHAT IT MAY MEAN FOR INVESTORS

- Yield should remain the central goal for investors in 2026, and credit quality the key metric to watch, as earnings durability and continued capital-market access likely drive strong investment-grade and high-yield corporate issuer performance.

FAVORED SECTORS

- Investment-Grade (IG) Credit, intermediate-term maturities (3 – 7 years)
- Securitized Securities
- Municipal Bonds

FAVORED SUB-SECTORS

- Investment-Grade Credit: Investment-Grade Corporate Bonds and Preferred Securities
- Securitized Securities: Residential Mortgage-Backed Securities (RMBS) and Asset-Backed Securities (ABS)
- Municipal Bond: General Obligation Bonds and Essential Services Revenue Bonds

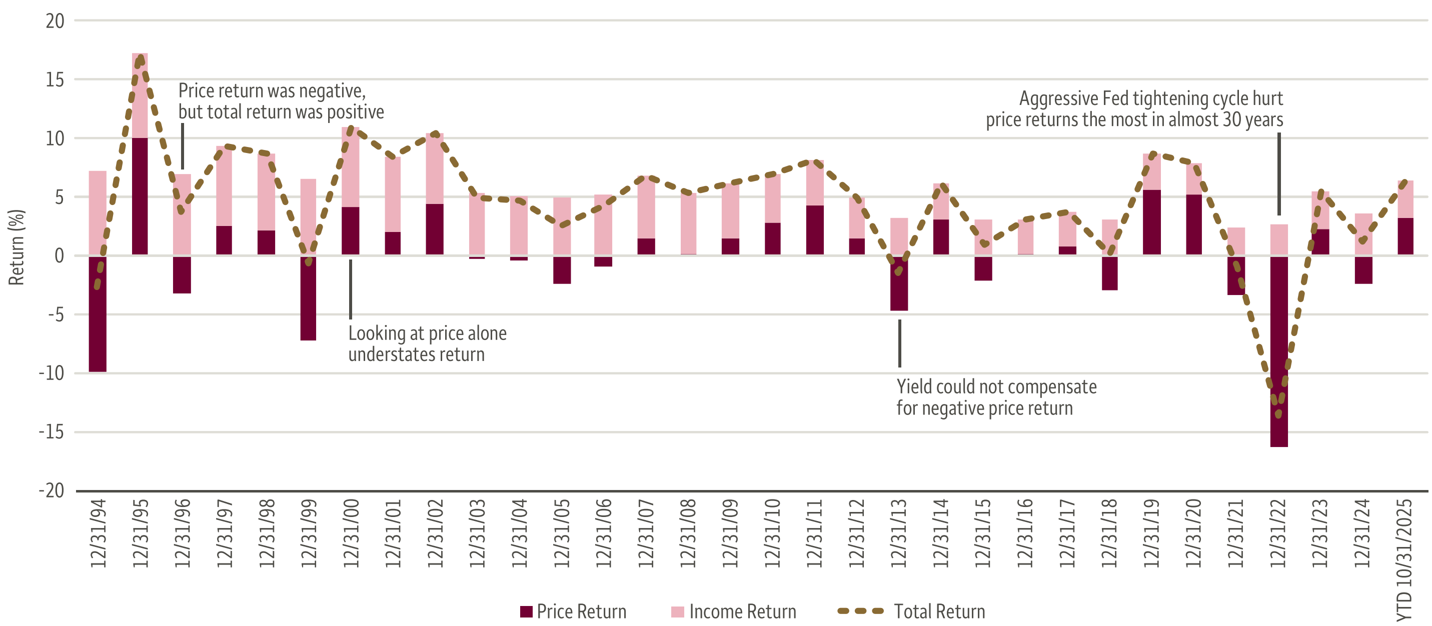
The potential for slow job creation even as the economy accelerates may lead some headlines to question how much the Fed can cut interest rates. Still, we believe the Fed's ultimate focus likely will be further cuts toward a neutral policy rate, that is, an interest-rate level that is neither restrictive nor stimulative. We prefer to look through headlines about whether policy can ease further and about whether political appointments threaten the Fed's policy independence.

We also are watching closely the signal embedded in the spread between short- and long-term interest rates. Short-term U.S. Treasury yields (with maturities of two years or less) may decline further, especially if the Fed continues with policy rate cuts in 2026. We believe intermediate (3 – 7-year maturities) and long-term yields (maturities of 10 years or more) may rise from year-end 2025 levels but remain within our year-end 2026 target range. Our expectations indicate a widening spread that is a historically common environment for a growing economy.

We think the income component of fixed income, also known as yield, should remain the central metric for investors in 2026 given our assumption that both interest rates and credit spreads will remain mostly range bound. Income generation should serve as a key driver of total return, and active management is crucial, in our view, to capture relative value within fixed-income sectors and sub-sectors (see below chart).

We believe that investors should focus on maintaining a diversified and laddered[2] portfolio. We think investors overexposed to cash or ultra-short-term investments (such as in money market funds or U.S. Treasury bills maturing in one year or less) should consider increasing exposure in intermediate-term fixed income. Especially if Fed interest-rate cuts drag short-term yields lower, as we expect, cash and money market yields should continue to trend lower. Also, we favor exposure to IG credit, particularly in high-quality IG corporate bonds and residential mortgage-backed securities, which we believe display attractive yield opportunities.

Total return matters for fixed income investors



Source: Bloomberg and Wells Fargo Investment Institute. Data shown is from January 1, 1994 through October 31, 2025. Year to date = YTD. Fed = Federal Reserve. All performance data is shown for the full calendar year except 2025, which is year to date. Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. An index is unmanaged and not available for direct investment. Yields represent past performance and fluctuate with market conditions. Current yields may be higher or lower than those quotes above. **Past performance is no guarantee of future results.**

2. A laddered bond portfolio involves purchasing bonds with staggered maturities — for example, 1-year, 3-year, 5-year, 7-year, and 10-year maturities.

Please see pages 29 – 31 for important definitions and risk considerations.

Opportunities and challenges for global bonds

We expect European-bond yields to remain volatile, with a bias toward moving higher, influenced largely by political instability and fiscal concerns. Meanwhile, we also expect Japanese-bond yields to rise further, driven by a combination of widening government budget deficits and policy interest-rate increases to stifle any resulting inflation from government spending. On balance, we remain neutral on DM ex-U.S. Fixed Income for two reasons. Overseas yields generally are below those available in the U.S., and we expect little to no currency return from overseas markets.

The global environment also remains mixed for EM Fixed Income with headwinds including lackluster Chinese growth and a steady U.S.-dollar value relative to EM currencies. Recent EM policy-rate movements have been mostly idiosyncratic. Some central banks seem set to cut policy rates while others remain on hold. However, modest economic growth, declining inflation, and a neutral outlook for commodities are likely to diminish credit risk potential. These crosscurrents leave our outlook neutral on EM sovereign debt.

Corporate credit — Prioritize stability over aggressive growth

IG credit spreads recently have ground to near all-time tight levels on the back of strong demand and mostly disciplined issuance. Yet, despite strong earnings growth, net leverage is well above average and interest coverage ratios are near decade low levels for many sectors, particularly among triple-B issuers.[3] Given our expectation for continued economic and earnings growth, we do not foresee material credit deterioration or downgrade activity. However, we do see relative value in sectors less impacted by tariffs and rapid technological change, such as financials and telecommunications.

In contrast, we view consumer discretionary as unattractive given weak credit metrics amidst downside risk to lower- and middle-income consumer activity. Further, we see minimal relative value in bonds of companies aggressively spending on new technologies that have unproven profitability to the detriment of their credit metrics, namely those developing data centers to power AI. While growth opportunities may handsomely reward equity investors, particularly tight credit spreads among involved issuers offer little value relative to other more stable fixed-income sectors.

High-yield fundamentals have begun to show some weakness despite steady earnings with interest coverage falling below the 10-year average. While double-B credit metrics remain near historic averages amid strong profitability, the bifurcation in the asset class's quality becomes clear when viewing the decline in single-B credit metrics; interest coverage has fallen to a 10-year low. Credit quality will be paramount over the next year, in our view, as earnings durability and continued capital-market access will be key for high-yield issuers' continued strong performance.

3. Bond-rating firms, such as Moody's, Standard & Poor's, and Fitch, 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."

Consider municipal bonds

Our municipal bond (muni) guidance is favorable. Generally speaking, muni credit quality remains resilient but has seen increasing challenges from reduced or more uncertain federal funding for programs such as Medicaid and FEMA (Federal Emergency Management Agency). These changes place more burden on state and local government finances. Credit pressure may emerge in some sub-sectors of the muni market due to federal funding cuts (e.g., health care, higher education), continued drawdown of stimulus funds, and the impact of tariffs on the broader economy.

Currently, we believe the 2025 business and household tax cuts reduce the near-term threat to municipal bonds' tax exemption. However, we reiterate there could be more risk to the exemption for private-activity bonds and other nonmunicipal borrowers. In 2026, we expect overall muni supply to continue to trend above the annual 10-year average of $390 billion due to a favorable interest-rate environment for issuers and the longer-term uncertainty about the tax treatment of municipals, which could bring more issuance ahead of any future tax changes.

For investors in higher-effective tax brackets, municipal securities remain relevant and an important part of fixed-income positioning because of the tax advantages and superior credit quality that municipal bonds offer relative to other asset classes. Additional support for municipal-bond performance during 2026 would include a potential risk-off environment, which could shift investor preference to municipal bonds.

Fixed income | Sector and sub-sector preferences

	SUB-SECTORS	
SECTORS	**FAVORABLE**	**UNFAVORABLE**
Investment-grade credit (Favorable)	Investment-Grade Corporate bonds in Financials, Telecom, Preferred Securities	Investment-Grade Corporate bonds in Consumer Cyclical, Technology
Securitized (Favorable)	Residential mortgage-backed securities, Asset-backed securities	
Municipal bonds (Favorable)	Investment-Grade Local General Obligation; Water, Sewer and Electric Revenue bonds	Smaller health-care providers

Source: Wells Fargo Investment Institute – sector guidance by Global Investment Strategy and sub-sector guidance by Global Securities Research as of December 9, 2025.

Please see pages 29 – 31 for important definitions and risk considerations.

Limited commodity opportunities

KEY TAKEAWAYS

- Lower interest rates, a stable U.S. dollar, and quickening economic growth in 2026 could drive moderate demand growth for commodities.
- We continue to see headwinds in an oversupplied energy market, which tempers our expectations for a broad-based commodity investment to outperform other asset classes.

WHAT IT MAY MEAN FOR INVESTORS

- We see strength in Precious Metals as near-term policy uncertainties persist; however, we also favor Industrial Metals in anticipation of stronger economic growth in the U.S. and improvement in some overseas economies.

FAVORED ASSET CLASSES AND SUBSECTORS

- Precious & Industrial Metals
- Data Center Real Estate Investment Trusts (REITs), Industrial REITs, Self-Storage REITs, and Telecommunication REITs

Still a neutral commodity outlook ahead

We view the easing of financial conditions and improving macro environment through 2026 as positive tailwinds for modest broad performance. We retain a neutral rating on the commodity complex because we believe that headwinds in an oversupplied energy market will limit overall performance.

Industrial Metals — Attractive opportunities to gain cyclical exposure

Our outlook on Industrial Metals remains positive, and we believe the sector offers attractive opportunities to gain exposure. While we do recognize the risk of moderating economic growth at the turn of the year, our outlook for improved economic conditions supported by a growth-friendly interest-rate environment should be a tailwind for stronger performance as 2026 develops. Additionally, ongoing Chinese measures to build out its electricity infrastructure to support AI create a likely support for China's burgeoning technology industries.

Supply constraints in mined copper production could boost sector outperformance. Unexpected supply disruptions in key mining regions have compounded existing supply concerns. We remain favorable on Industrial Metals and suspect that tighter supply conditions in conjunction with demand growth from an improving macro environment should drive sector outperformance.

Gold — Further room to shine

We remain constructive on gold's (and Precious Metals') uptrend through 2026. Recent conditions have been ripe for gold outperformance as global demand growth has been fueled by heightened central-bank purchases, U.S. dollar depreciation, Fed interest-rate cuts, and geopolitical uncertainty.

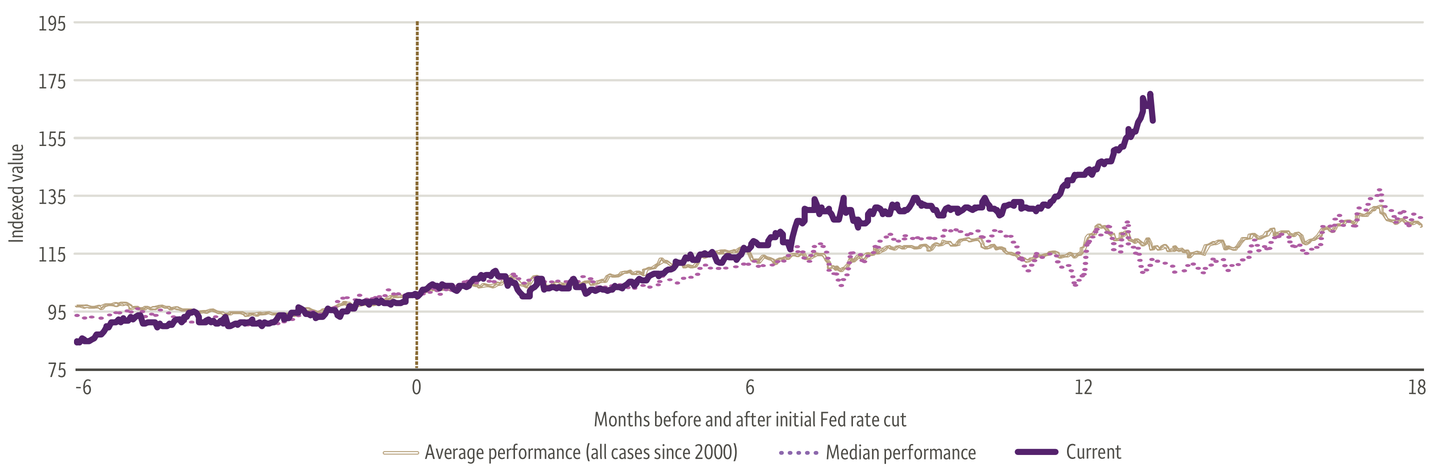
We expect many of these tailwinds to persist in 2026 and continue driving gold's outperformance, albeit at a slower pace than in 2025. Central banks continue to play a pivotal role in gold's rally, and many of the initial concerns that sparked purchases persist, such as inflation and diversification amid geopolitical risks. Additionally, our expectation for additional Fed rate cuts and a stable U.S. dollar could drive further gains and be tailwinds for demand growth in exchange-traded funds. As seen in the chart below, past Fed easing cycles have been a strong driver of gold's performance over the following 18 months.

Energy — Risks of oversupply temper our expectations

Within commodities, we remain neutral on the energy sector due to mounting global-supply headwinds and our expectations for a mild economic soft patch that extends into early 2026 that likely will tilt oil markets into a surplus. OPEC+[4] has been the primary source of global supply growth, and we view the cartel's planned unwinding of the next tranche of supply cuts, totaling 1.6 million barrels per day, as an ongoing drag for the sector.

However, we do still see some strengths in oil markets, which we believe could lead to modestly higher prices by year-end 2026. Namely, the implementation of Fed rate cuts to support economic growth as 2026 progresses could foster demand growth. Additionally, relatively weak pricing and operating uncertainties in 2025 have resulted in U.S. producers taking a cautious approach to 2026's capex. In effect, this cautious approach could lead to a muted supply response from the largest global producer, the U.S. Therefore, we remain neutral on the sector.

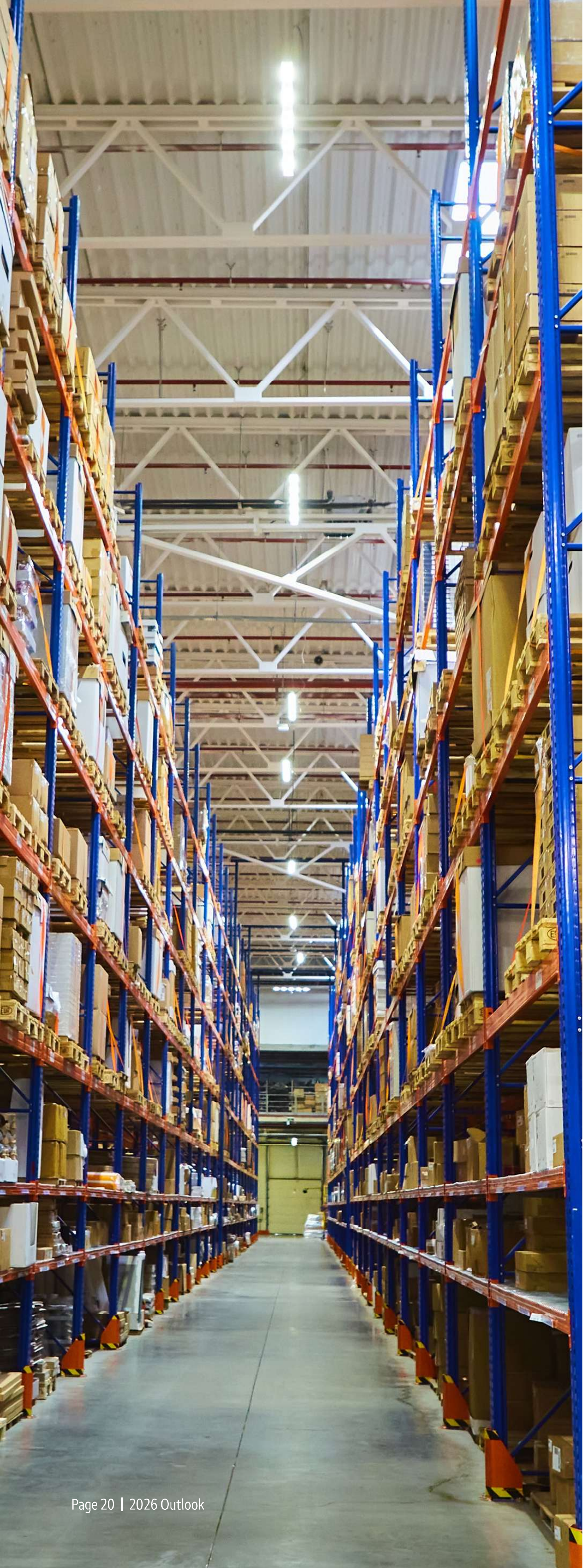
Gold's performance following Fed rate cutting cycles since 2000



Sources: Bloomberg and Wells Fargo Investment Institute, as of November 10, 2025. Daily data indexed to 100 at time "0", the initial rate cut, to measure performance. Index of daily gold prices, 100=date of first interest rate cut in each rate-cutting cycle. Cases shown include Fed rate cutting cycles that began January 3, 2001, September 18, 2007, and July 31, 2019. The current rate cutting cycle began on September 18, 2024. **Past performance is no guarantee of future results.**

4. The Organization of Petroleum Exporting Countries and its allies, including Russia.

Please see pages 29 – 31 for important definitions and risk considerations.



Agriculture — Providing stability to commodity performance

While we do not expect agricultural commodities to be an outperformer relative to the broader commodity complex, we do see value in their typical defensive character — i.e., the world will always need food, even if economies falter. Still, we continue to view ample supplies and trade tension as risks that limit our expectations for relative outperformance. Therefore, we remain neutral on Agriculture.

Public Real Estate — A possible boost from lower interest rates

Looking past any moderating U.S. economic activity in early 2026, we believe this Fed rate-reduction cycle can potentially benefit equity REITs in several ways, including a reduction in borrowing costs along with an improved cost of equity capital via stronger equity multiples leading to higher common share prices.

In our view, equity REITs within the favorably-rated REIT sub-sectors are potentially well-positioned to capitalize on several long-term trend expectations. These include increased demand for data-center usage driven by AI, the continued roll out of fifth-generation (5G) wireless network technology, and continued growth in e-commerce sales volume driving investments in supply-chain modernization. Additionally, we believe self-storage REITs are positioned to benefit from modest increases in home sales and home-improvement activity.

Public Real Estate sector and sub-sector preferences

	SUB-SECTORS	
SECTORS	**FAVORABLE**	**UNFAVORABLE**
Public Real Estate (Neutral)	Data Centers, Industrials, Self-Storage, Telecommunications	Diversified, Lodging/Resort, Office, Specialty, Timberland

Source: Wells Fargo Investment Institute – sector guidance by Global Investment Strategy and sub-sector guidance by Global Securities Research as of December 9, 2025.

Reduce noise sensitivity

KEY TAKEAWAYS

- Alternative investments may enhance portfolio resilience by offering diversification through, reduced exposure to short-term market volatility, and structural features may help investors maintain long-term discipline through market cycles.
- Flexible hedge-fund strategies may provide valuable tools for navigating today's complex and rapidly evolving investment environment. These strategies aim to mitigate risk, capitalize on macroeconomic shifts, and complement traditional equity allocations with differentiated sources of return.

WHAT IT MAY MEAN FOR INVESTORS

- Alternative investment strategies are not suitable for all investors, but select strategies available to qualified investors may further reduce exposure to short-term market noise and offer smoother return profiles, especially in volatile environments.

FAVORED HEDGE FUND STRATEGIES AND SUB-STRATEGIES

- Event Driven: Distressed Credit
- Event Driven: Merger Arbitrage
- Relative Value: Long/Short Credit
- Equity Hedge: Long/Short Equity
- Macro: Discretionary

FAVORED PRIVATE CAPITAL STRATEGIES AND SUB-STRATEGIES

- Private Debt: Distressed/Special Situations
- Private Equity: Small/Mid Buyout
- Private Equity: Growth Equity
- Private Equity: Secondaries
- Private Infrastructure

Please see pages 29 – 31 for important definitions and risk considerations.

Using alternatives to block out the noise

We believe that hedge funds can offer qualified investors ways to focus on the positive trends we see in place while blocking out much of the headline noise. Hedge funds include a wide array of strategies that generally increase the fund manager's flexibility to express market views, hedge unintended risks, and often operate away from the short-term sentiment of the public markets.

Flexible strategies for rapidly shifting markets

We remain favorable on Equity Hedge — Long/Short Equity and Relative Value — Long/Short Credit as these flexible sub-strategies may help investors participate in upward-trending markets yet seek to limit their exposure in declining markets. We also maintain our favorable guidance on Macro — Discretionary sub-strategies. These strategies may benefit from active, top-down decision-making that can evolve with major macroeconomic shifts, central bank actions, and geopolitical developments.

We recently upgraded our guidance on Merger Arbitrage sub-strategies to favorable, reflecting improving M&A activity. According to Bloomberg data (September 30, 2025), current deal premiums and timelines remain consistent with historical norms. Meanwhile, easing economic uncertainty, declining interest rates, deregulation, and strategic acquisitions to sidestep tariffs all support our expectation for continued M&A volume recovery and opportunities in Merger Arbitrage sub-strategies.

We maintain a favorable view on Event Driven — Distressed Credit sub-strategies. These sub-strategies seek positions in businesses under stress, often due to high debt service costs, slowing growth, and margin compression — particularly among overleveraged small and midsized firms. The countercyclical nature of Distressed Credit sub-strategies can help mitigate portfolio volatility and support investor confidence amid disruptions in traditional equity and fixed-income markets.

Private market views

We believe Private Equity should continue to find support from our expectations for stabilizing inflation, lower short-term interest rates, and improved policy clarity. A key area of improvement we have seen is that mature private-equity funds have found opportunities to harvest investment gains by selling or exiting their positions. The volume of these exits has increased over 70% year-over-year with initial-public-offering activity more than doubling in value and spanning a broad range of sectors.[5] This rebound is evident across both venture capital and buyouts with total exit transactions rising more than 20%.[6] According to Pitchbook, dealmaking has also strengthened, with quarterly deal volume up over 40% as of September 30, 2025, although larger deals appear to be the preference. We expect the increase in exit volume to free capital tied up in mature investments, thereby enhancing liquidity and enabling a more dynamic cycle of reinvestment and deal activity.

We also favor Growth Equity, which relies less on debt-funded acquisitions and targets minority equity stakes in established businesses with proven models and meaningful revenue or earnings. Within Buyouts, we favor Small- and Mid-Market sub-strategies over Large Buyouts, where larger debt requirements have often constrained deal activity.[7] While lower short-term interest rates may eventually support a resurgence in larger transactions, greater clarity on future interest rates may be necessary to improve the outlook for this segment.

We recently initiated coverage of Private Equity — Secondaries with favorable guidance. In our view, Secondary sub-strategies — which focus on purchasing existing stakes in private funds — can offer diversification and improved transparency compared to private equity funds. These sub-strategies may allow qualified investors to access mature portfolios at discounted valuations and so potentially improve risk-adjusted outcomes. Attractive discounts to net asset value and growing transaction volumes should enhance the appeal of secondaries.[8] We believe secondaries represent a timely and strategic addition to diversified private-capital allocations.

5. "US PE Breakdown, Q3 2025" Pitchbook, as of September 30, 2025.
6. Source: Pitchbook – US PE Breakdown Q3 2025.
7. Source: Pitchbook – US PE Middle Market Report 2024 Annual
8. Source: Greenhill Global Secondary Market Review 1H 2025.

We recently initiated coverage of Private Infrastructure with favorable guidance. We believe it offers potential for compelling portfolio benefits, including inflation-linked cash flows, low correlation to traditional assets, and attractive risk-adjusted returns. Long-term opportunities should find strength in trends, such as the emerging rebuild of energy infrastructure, more energy sources, and rising demand for digital assets. While U.S. energy infrastructure capacity lags (see chart below), we see a growing role for private capital in what are typically high-barrier-to-entry, income-generating assets like transportation, utilities, and data networks. In our view, these dynamics create a solid foundation for long-term investors seeking resilient, diversifying exposure.

We also see compelling opportunities in Distressed Credit/ Special Situations sub-strategies within Private Debt, likely extending into the initial stages of the anticipated recovery in mid-2026. Many small and mid-sized companies continue to face mounting financial pressure, struggling to cover operating and debt-service costs. According to October 2025 Pitchbook data on U.S. leveraged loan default rates, traditional defaults remain stable but an increasing number of firms are proactively restructuring through distressed exchanges aimed at reducing debt burdens and improving financial health. When factoring in these exchanges, broader default indicators have remained elevated relative to levels a few years prior.

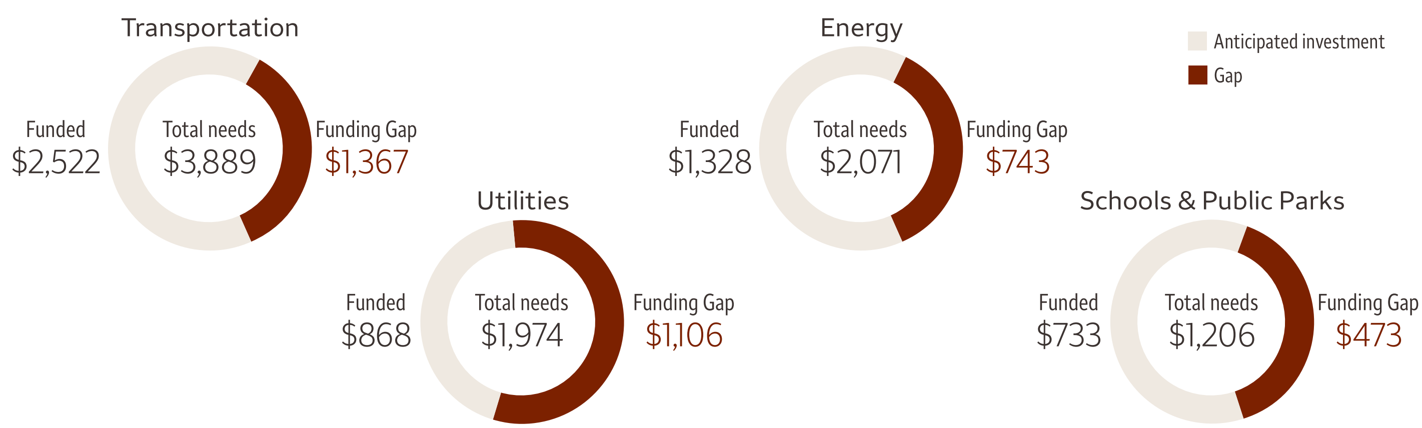
In Private Debt — Direct Lending, we hold a neutral stance reflecting a balance of risks and opportunities. Income generation remains attractive, and default rates are low. While the lower short-term interest rates we expect may ease debt-service burdens, current economic softness and potential inflationary pressures may increase stress among the most vulnerable borrowers.

Lastly, we hold a neutral stance on Private Real Estate. While easing bank lending and lower-rate forecasts may hold promise, key sectors like Industrial and Multifamily remain challenged by excess supply — evidenced by apartment rental growth slowing to the lowest rate in 14 years.[9]

Our conviction is that our favored alternative investment strategies should create potential opportunities for investors' consideration. However, that consideration should also weigh particular features and risks. For example, alternative investments are offered only to qualified investors, where eligibility is generally determined by net worth or net investable assets, where applicable.

In addition, alternative investments, including hedge funds and private capital strategies, involve many unique risks and should be carefully evaluated before making an investment. Key risks include valuation uncertainty, higher fees, inclusion of illiquid assets, greater use of leverage and/or derivatives, use of short selling, and greater performance dispersion. Please note that this list of risks is not a complete summary or explanation of the various risks involved in an investment in the strategy but highlight several that we believe an investor should consider prior to making an investment.

Anticipated 10-year funding gaps likely to support infrastructure assets



Sources: American Society of Civil Engineers (ASCE) 2025 report card. Data as of March 25, 2025. Assumes continued investment support from appropriation amounts set by the 2021 Infrastructure Investment and Jobs Act (IIJA), 2022 Inflation Reduction Act (IRA), and other legislation. Dollars in 2022 Billions. Estimates are not guaranteed and 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.**

9. Thoughtful Money podcast: October 12, 2025: Interview with Nick Gerli, founder of real-estate analytics platform Reventure.

Please see pages 29 – 31 for important definitions and risk considerations.

Five investment ideas for 2026

Rather than reacting to daily headlines, we encourage investors to tune out the market noise and focus on the fundamental signals shaping tomorrow's investment landscape: policy tailwinds, technological transformation, and expanding opportunities across asset classes.

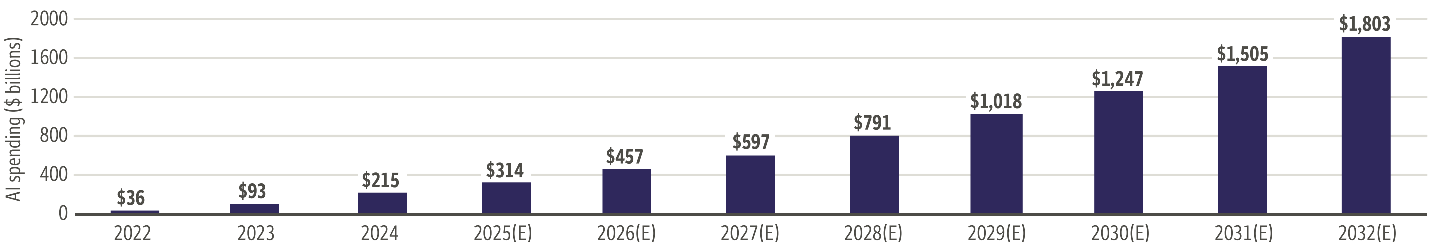
1 | Focus on technology's promise and productivity

In 2026, we expect to see AI develop further from a concentrated technology phenomenon into a broad-based economic growth catalyst. And other technology trends are emerging. In particular, tariffs, reduced labor supply, and tax cuts should combine to encourage firms to speed up productivity-enhancing changes across industries. More specifically, the technology, energy and infrastructure demands of digital assets, autonomous vehicle production, growing defense needs, and industrial automation more broadly should drive opportunities in the Industrials and Utilities equity sectors. Cybersecurity as a rising national-security priority looks to us like another durable trend, and investors could look to the Systems Software subgroup under the Software subsector for companies that are tackling this technology project.

More broadly, we see the seismic changes in technology already working into other equity sectors. Midstream Energy and Machinery, Electrical Equipment, and Data Center REIT companies are emerging as critical contributors, providing the infrastructure, operational supports, and energy solutions needed to power AI expansion. Diversified Banks in the Financials sector are likely to benefit from increased capital-formation activity as spending on generative AI (a specific type of AI) is expected to grow exponentially in the coming decade (see chart below), ultimately supporting growth beyond tech.

We also expect growth to broaden outside of the equities asset group. In real assets, Industrial Metals may stand to benefit as raw materials are needed to support both AI hardware and growing infrastructure needs. In the alternatives space, Private Infrastructure and Real Estate funds are well positioned, in our view, to target data-center and energy-grid buildouts to also provide potential upside capture in the AI trade.

Generative AI spending likely to surge over the next decade



Sources: Bloomberg, eMarketer, International Data Corporation (IDC), Statista, and Wells Fargo Investment Institute, as of September 30, 2025. The bars represent the current and forecasted annual revenue as a result of AI. E = estimate. 2025 to 2032 data are estimates. Estimates are not guaranteed and 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 | Digital assets as a potential opportunity

Digital assets and blockchain represent a transformative technology that aligns with broader trends such as artificial intelligence, automation, and next-generation payment systems. Digital assets have evolved into a more mainstream and readily accessible asset class — particularly attractive to investors seeking innovation, diversification, and long-term growth potential. Digital asset investment may offer exposure to blockchain technology, a foundational innovation that enables secure, decentralized transactions and underpins the broader digital asset ecosystem.

We see two related risks to digital asset investing. First, wide price swings have made digital assets materially more volatile than traditional equity, fixed income and commodity assets. The table shows declining price standard deviation (a measure of volatility), as digital assets have gained popularity. Yet, even for the latest sub-period in the table (March 2021-October 2025), the 70% standard deviation for digital asset prices was more than four times the 16% rate for the S&P 500 Index in that period (not shown).

A second risk is that digital asset prices can move closely — both higher and lower — with equities when extremes in liquidity develop. The table shows that the correlation between digital assets and (U.S. and global) equities was highest during periods when cash available for investing was either expanding or contracting unusually quickly, notably the pandemic period of 2020-2021 but even up to the present. Our work shows that liquidity has been an important driver of equity prices historically. Digital assets appear to share this feature.

We believe that the persistence and pace of technological change will reinforce the economic utility of these assets and create, not only more access through regulated investment vehicles, but also attract more awareness and interest among long-term investors. This evolution toward greater accessibility and institutional adoption should support continued price appreciation and stability over time. In fact, digital asset volatility has moderated significantly over the past 15 years, as the table shows. As this asset has developed, we have built a range of educational resources and expect to add to that collection.

Low long-term digital-asset correlations with select traditional investment assets

	CORRELATIONS BETWEEN TRADITIONAL ASSETS AND DIGITAL ASSET PRICES					
PERIOD	MSCI ALL COUNTRY WORLD INDEX	BLOOMBERG U.S. AGGREGATE BOND INDEX	S&P 500 INDEX	BLOOMBERG COMMODITY INDEX	GOLD SPOT PRICE	ANNUALIZED STANDARD DEVIATION OF MONTHLY RETURNS
From 1/31/2011 to 10/31/2025	0.18	0.09	0.19	0.08	0.00	182%
From 8/31/2017 to 10/31/2025	0.34	0.15	0.34	0.15	0.05	104%
From 1/31/2020 to 2/28/2021	0.69	0.32	0.67	0.43	0.13	88%
From 3/31/2021 to 10/31/2025	0.56	0.26	0.62	0.05	0.06	70%

Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data from January 31, 2011, to October 31, 2025, current as of November 17, 2025. The price of gold is the Intercontinental Exchange (ICE) U.S. dollar price per troy ounce. Digital asset prices are represented by a composite (December 2010 = 1) of our construction that consistently has captured roughly 90% of market capitalization (calculated as circulating supply times price) and the growing diversity of the market over time. The composite constituents are the price of Bitcoin from December 2010 to August 2015; a market-cap-weighted combination of bitcoin and Ethereum prices (market weights and Ethereum prices from CoinCodex) from September 2015 to July 2017; and the Bloomberg Galaxy Crypto Index from its inception in August 2017 through October 31, 2025. Standard deviation, a measure of price volatility, measures the average gap between month-end prices and their average month-end price over a given period. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

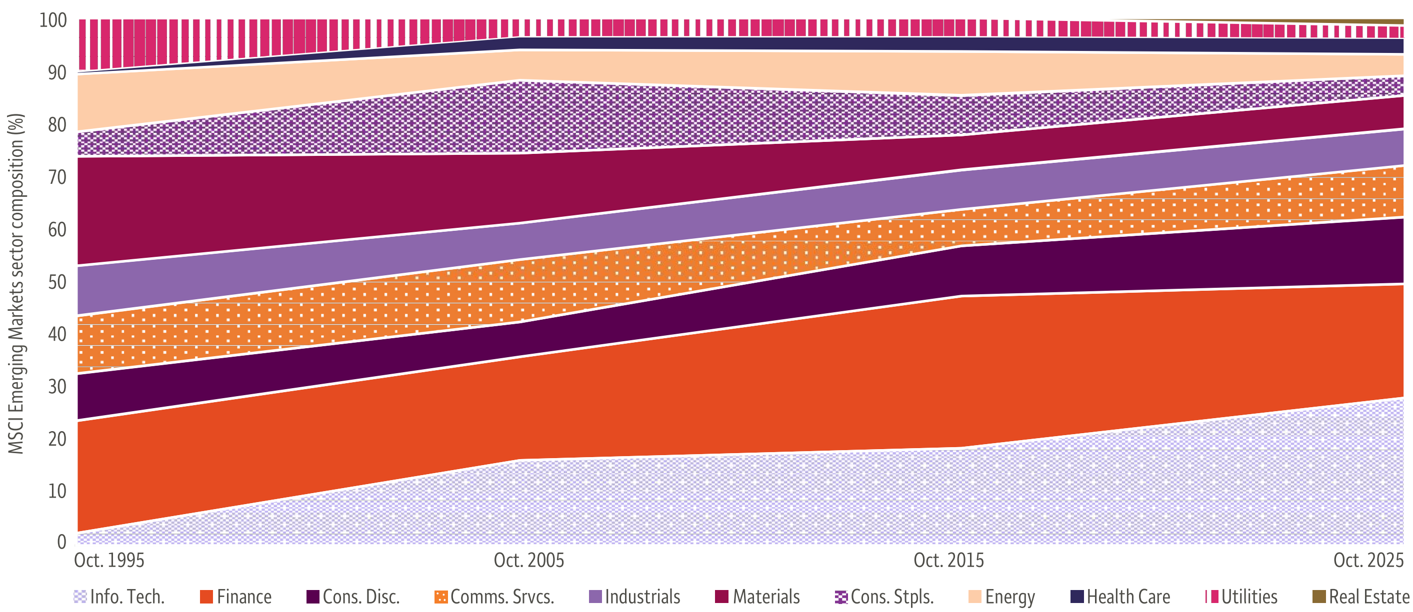
Please see pages 29 – 31 for important definitions and risk considerations.

3 | Complement U.S. equity bias with international opportunities

As U.S. fiscal policy is driving domestic growth and propelling markets to new highs, global equity markets also are exhibiting strong performance and becoming more competitive. We are maintaining our home-country bias with a preference for U.S. equities and fixed income. However, given our expectations for easing global inflation and lower short-term U.S. interest rates, it follows that the dollar should remain stable and thereby could support further lower borrowing costs in emerging markets. Broadly, EM Equities have shifted toward more growth-oriented sectors. Countries like South Korea and Taiwan, along with the broader ASEAN (Association of Southeast Asian Nations) region, are benefiting from Beijing's strategic pivot to compete with the U.S. in technology. This same group of countries is already taking over significant manufacturing as U.S. importers divert their supply chains out of China. We expect this production diversification to broaden to other regions of the world. Moreover, increased defense spending and infrastructure rebuilding in European nations like Germany, coupled with less disruptive tariff impacts than we previously anticipated, support our preference for a full international equity allocation.

Commodity metals also are poised to benefit from subdued U.S. dollar strength and sustained global growth. We are favorable Industrial Metals, supported by ongoing AI-infrastructure buildouts, stable global macroeconomic conditions, and the potential for tighter supply dynamics. Precious metals also remain attractive driven by interest-rate cuts, continued central-bank accumulation, and their role as a general hedge against geopolitical and economic uncertainty.

Emerging markets have become more tech-focused over time



Sources: Wells Fargo Investment Institute and Bloomberg, as of October 31, 2025. **An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

4 | Position portfolios for lower short-term rates

While still above their prepandemic levels, money market (cash alternatives) and short-term yields may struggle to compensate for inflation in some important segments of the economy. For 2026 and beyond, we expect health-care-cost inflation to approach 7.5%.[10] Health-care inflation in this range would outpace broader consumer price inflation and outstrip the rate on a three-month U.S. Treasury Bill money market yield (3.88%).[11] Other areas of the economy that may also outpace short-term yields are construction and education.

We see an opportunity to shift the investment approach from liquidity preservation to growth opportunities that should position investors to better manage against rising costs. Headlines around trade and other policies can be confusing and concerning and can cause investors to over-invest in cash alternatives, but we believe a selective approach to equity and fixed-income investment can help bridge the gap between money market yields and inflation in medical care and other essential services.

The earnings-growth and balance-sheet strength of U.S. Large Cap Equities and U.S. Mid-Cap Equities make those asset classes our favored equity asset classes. In fixed income, we favor high-quality investment-grade bonds, RMBS, and municipals. Commodities, especially gold and precious metals, may offer capital preservation, in our view, amid ongoing geopolitical and inflation risks and given our outlook for a stable U.S. dollar and unrelenting central-bank demand. In private debt, we warrant caution as stress emerges in subprime auto lending; investors should monitor credit quality and avoid overexposure to vulnerable consumer segments.

Overall, the monetary backdrop supports income generation and selective risk-taking with implementation focused on quality across asset classes to preserve capital while positioning for a growth recovery.

5 | Harness the noise-reducing potential of alternatives and private assets

In a market environment shaped by lower short-term interest rates, macroeconomic uncertainty, and ample liquidity, we think alternative investments and private assets could be attractive vehicles for portfolio resilience and upside capture. As investors search for yield, Private Infrastructure is gaining traction as an income diversifier, supported by tailwinds from business plant and equipment spending and technological and digital infrastructure buildouts. This asset class aligns well with current White House and congressional fiscal priorities and offers inflation-sensitive cash flows, in our view.

We believe that qualified investors increasingly see in Private Equity as a strategy to access potentially fast-growing companies, especially in sectors benefiting from fiscal stimulus and technological transformation. Private-capital strategies may increasingly target the small and mid-sized firms in infrastructure improvement and in reshoring production to the U.S., and we expect that Private Equity can complement allocations to traditional public markets. In particular, we see opportunities in secondaries, small- and middle-market, growth-equity, and infrastructure investments.

Hedge funds can help reduce portfolio sensitivity to market noise by employing strategies that attempt to capture upside in markets while limiting downside. We believe such approaches can diversify portfolios, particularly when traditional markets overreact to headlines. Within hedge funds, Merger Arbitrage sub-strategies have benefited from an improving M&A environment, while Discretionary sub-strategies within Macro we believe are well-positioned to navigate choppy global conditions. These sub-strategies offer tactical flexibility and are designed to limit downside participation in a market where earnings dispersion and policy risk remain elevated.

10. This figure is based on work by KFF (formerly known as the Kaiser Family Foundation) and published on Oct. 8, 2025. The Mercer study provides independent support of this estimate. See "Employers Prepare for the Highest Health Benefit Cost in 15 Years," Mercer, September 3, 2025.
11. Bloomberg, as of October 17, 2025.

Please see pages 29 – 31 for important definitions and risk considerations.

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Definitions

An index is unmanaged and not available for direct investment.

The **Moderate Growth & Income portfolio** is composed of 2% Bloomberg U.S. Treasury Bills (1–3 Month) Index, 30% Bloomberg U.S. Aggregate Bond Index, 6% Bloomberg U.S. Corporate High Yield Bond Index, 5% JPM EMBI Global Index, 27% S&P 500 Index, 10% Russell Midcap Index, 3% Russell 2000 Index, 8% MSCI EAFE Index, 5% MSCI Emerging Markets Index, 4% Bloomberg Commodity Index.

The **Moderate Growth portfolio** is composed of 2% Bloomberg U.S. Treasury Bills (1–3 Month) Index, 8% Bloomberg U.S. Aggregate Bond Index, 3% Bloomberg U.S. Corporate High Yield Bond Index, 35% S&P 500 Index, 14% Russell Midcap Index, 6% Russell 2000 Index, 15% MSCI EAFE Index, 12% MSCI Emerging Markets Index, 5% Bloomberg Commodity Index.

The **Moderate Income portfolio** is composed of 2% Bloomberg U.S. Treasury Bills (1–3 Month) Index, 60% Bloomberg U.S. Aggregate Bond Index, 4% Bloomberg U.S. Corporate High Yield Bond Index, 5% JPM EMBI Global Index, 18% S&P 500 Index, 5% Russell Midcap Index, 4% MSCI EAFE Index, 2% Bloomberg Commodity Index.

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

U.S. Economic Policy Uncertainty Index developed by Baker, Bloom, and Davis is based on newspaper coverage frequency as index proxies for movements in policy-related economic uncertainty.

Bloomberg Commodity Index is calculated on an excess-return basis and reflects commodity price movements. The index rebalances annually weighted 2/3 by trading volume, 1/3 by world production, and weight-caps are applied at the commodity, sector, and group levels. Roll period typically occurs from 6th-10th business day.

Bloomberg Commodity Total Return Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13-week (3 month) U.S. Treasury bills.

Bloomberg Galaxy Crypto Index (BGCI) is a benchmark designed to measure the performance of the largest digital assets traded in USD. The Index is owned and administered by Bloomberg and co-branded with Galaxy Digital Capital Management. Digital asset weightings are based on market capitalization (calculated as product of circulating supply and price), subject to weighting restrictions applied monthly such that no digital assets constitutes more than 35% of the Index or constitutes less than 1%. Between rebalancings, weights may fluctuate to levels outside these limits. Time-weighted average prices are derived from eligible, non-outlier trades that occur within a 30-minute window prior 4pm ET. Quoted currency is USD.

Bloomberg MSCI Emerging Markets Index is a benchmark designed to measure equity market performance across emerging market countries. It is market-cap weighted, includes large and mid-cap companies from multiple emerging economies, and is widely used by institutional investors and ETFs for tracking and benchmarking purposes. The index covers sectors such as consumer discretionary, energy, financials, and information technology, and aims to represent the investable equity opportunity set in emerging markets.

Bloomberg U.S. Aggregate Bond Index is composed of the Bloomberg Capital U.S. Government/Credit Index and the Bloomberg Capital U.S. Mortgage-Backed Securities Index and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities.

Bloomberg U.S. Corporate High Yield Bond Index is an unmanaged index that tracks the performance of below-investment-grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg U.S. Municipal Bond Index represents municipal bonds with a minimum credit rating of at least Baa, an outstanding par value of at least $3 million, and a remaining maturity of at least one year. The index excludes taxable municipal bonds, bonds with floating rates, derivatives, and certificates of participation.

Bloomberg U.S. Treasury Bill (1–3 Month) Index includes all publicly issued zero-coupon U.S. Treasury bills that have a remaining maturity of less than three months and more than one month, are rated investment-grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed-rate and nonconvertible.

Cliffwater Direct Lending Index is an asset-weighted index of approximately 14,800 directly originated middle-market loans as of December 31, 2024.

HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2000 single-manager funds that report to HFR Database. Constituent funds report monthly net-of-all-fees performance in U.S. dollars and have a minimum of $50 Million under management or a 12-month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

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.

J.P. Morgan Emerging Markets Bond Index Global (EMBI Global) currently covers 27 emerging market countries. Included in the EMBI Global are U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

Merrill Lynch Option Volatility (MOVE) Index, which is composed of over-the counter options for Treasury securities maturing in 2-30 years. It is a yield-curve-weighted index of the normalized implied volatility on 1-month Treasury options which are weighted on the 2, 5, 10, and 30 year contracts.

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 subpar 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.

MSCI EAFE Index (USD/Local) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of 21 developed markets, excluding the U.S. & Canada.

MSCI Emerging Markets Index (USD/Local) is a free float-adjusted market capitalization index that is designed to measure equity market performance of 23 emerging-market countries.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 developed market countries including the United States.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000® 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 U.S. stock market. Returns assume reinvestment of dividends and capital-gain distributions.

S&P 500 Energy Index comprises those companies in the S&P 500 Index that are classified as members of the GICS energy sector.

S&P 500 Information Technology Index comprises those companies in the S&P 500 Index that are classified as members of the GICS information technology sector.

VIX Index is a financial benchmark designed to be an up-to-the-minute market estimate of the expected volatility of the S&P 500® Index and is calculated by using the midpoint of real-time S&P 500 Index (SPX) option bid/ask quotes.

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.

A periodic investment plan such as dollar cost averaging does not assure a profit or protect against a loss in declining markets. Since such a strategy involves continuous investment, the investor should consider his or her ability to continue purchases through periods of low price levels.

All investing involves risks, including the possible loss of principal. There can be no assurance that any investment strategy will be successful and meet its investment objectives. Investments fluctuate with changes in market and economic conditions and in different environments due to numerous factors, some of which may be unpredictable. Asset allocation and diversification do not guarantee investment returns or eliminate risk of loss. Each asset class has its own risk and return characteristics, which should be evaluated carefully before making any investment decision. 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. Some of the risks associated with the representative asset classes include:

General market risks

Stock markets, especially foreign markets, are volatile. A ***stock's*** *value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. I****nternational investing*** *has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging and frontier markets. Investing in* ***small- and mid-cap companies*** *involves additional risks, such as limited liquidity and greater volatility.*

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund.

Cash alternatives typically offer lower rates of return than longer-term equity or fixed-income securities and provide a level of liquidity and price stability generally not available to these investments. Some examples of cash alternatives include: Bank certificates of deposit; bank money market accounts; bankers' acceptances, federal agency short-term securities, money market mutual funds, Treasury bills, ultra-short bond mutual funds or exchange-traded funds and variable rate demand notes. Each type of cash alternatives has advantages and disadvantages which should be discussed with your financial advisor before investing.

Investments in ***fixed-income securities, including municipal securities****, are subject to market, interest rate, credit, liquidity, inflation, prepayment, extension, and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in a decline in the bond's price.* ***High-yield fixed-income*** *securities are considered speculative, involve greater risk of default, and tend to be more volatile than investment-grade fixed-income securities.* ***Municipal securities*** *may also be subject to the alternative minimum tax and 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.*

Sovereign debt *is generally a riskier investment when it comes from a developing country and tends to be a less risky investment when it comes from a developed country. The stability of the issuing government is an important factor to consider, when assessing the risk of investing in sovereign debt, and sovereign credit ratings help investors weigh this risk.*

U.S. government securities *are backed by the full faith and credit of the federal government as to payment of principal and interest if held to maturity. 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.*

Mortgage-related securities *are subject to prepayment and call risks in addition to the risks of investing in debt securities. Call risk is the risk that the issuer will redeem the issue prior to maturity. This may result in reinvestment risk, which means the proceeds will generally be reinvested in a less favorable environment. Changes in prepayments may significantly affect yield, average life, and expected maturity.*

Currency *risk is the risk that foreign currencies will decline in value relative to that of the U.S. dollar. Exchange rate movement between the U.S. dollar and foreign currencies may cause the value of a portfolio's investments to decline.*

Bond rating firms*, such as Moody's, Standard & Poor's and Fitch, 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."*

Sector investing

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. **Communication** services companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation, and approval of products and services. In addition, companies within the industry may invest heavily in research and development, which is not guaranteed to lead to successful implementation of the proposed product. Risks associated with the **Consumer Discretionary** sector include, among others, apparel price deflation due to low-cost entries, high inventory levels, and pressure from e-commerce players; reduction in traditional advertising dollars, increasing household debt levels that could limit consumer appetite for discretionary purchases, declining consumer acceptance of new product introductions, and geopolitical uncertainty that could affect consumer sentiment. **Consumer Staples** industries can be significantly affected by competitive pricing particularly with respect to the growth of low-cost emerging-market production, government regulation, the performance of the overall economy, interest rates, and consumer confidence. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in **Financial** services companies will subject a investment to adverse economic or regulatory occurrences affecting the sector. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations, and government approval of products anticipated to enter the market. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation, and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing, and cost containment issues. **Real estate** investments have special risks, including possible illiquidity of the 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. Technology and Internet-related stocks and smaller, less-seasoned companies, tend to be more volatile than the overall market.

Alternative investments

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, and 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.

Private debt strategies seek to actively improve the capital structure of a company, often through debt restructuring and deleveraging measures. Such investments are subject to potential default, limited liquidity, the creditworthiness of the private company, and the infrequent availability of independent credit ratings for private companies. Investing in distressed companies is speculative and involves a high degree of risk. Because of their distressed situation, these securities may be illiquid, have low trading volumes, and be subject to substantial interest-rate and credit risks. **Private capital investments** are complex, speculative investment vehicles not appropriate for all investors. They are not subject to the same regulatory requirements as registered investment products and engage in leverage and other aggressive investment practices. There is often limited (or even nonexistent) liquidity and a lack of transparency regarding the underlying assets.

Hedge fund strategies, such as **Event Driven, Equity Hedge, Global Macro, Relative Value, Structured Credit, and Long/Short Credit**, 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 because 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. Private capital investments are complex, speculative investment vehicles not appropriate for all investors. They are not subject to the same regulatory requirements as registered investment products and engage in leverage and other aggressive investment practices. There is often limited (or even nonexistent) liquidity and a lack of transparency regarding the underlying assets.

Real assets

Digital assets are not a physical currency, nor legal tender. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment, and a potential total loss of their investment. An investor could lose all or a substantial portion of his/her investment. Digital assets have limited operating history or performance. Digital Assets are sometimes exchanged for U.S. dollars or other currencies around the world, but they are not backed or supported by any government or central bank. Their value is completely derived by market forces of supply and demand, and they are more volatile than traditional fiat currencies.

Real assets are subject to the risks associated with **real estate, commodities**, and other investments and may not be appropriate for all investors. The **commodities markets**, including investments in **gold and other precious metals**, 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. Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity. Products that invest in commodities may employ more complex strategies, which may expose investors to additional risks.

There are special risks associated with an investment in **real estate**, including the possible illiquidity of the underlying properties, credit risk, interest-rate fluctuations, and the impact of varied economic conditions. Other risks associated with investing in listed **real estate investment trusts (REITs)** include the use of leverage, unexpected reductions in common dividends, increases in property taxes, and the impact to listed REITs from new property development.

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