

June 2026

2026 Midyear Outlook

Keeping discipline
in noisy markets

Keeping discipline in noisy markets



A stylized, handwritten signature in dark ink.

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“Time is your friend; impulse is your enemy.”

— John C. Bogle,
founder of The Vanguard Group

Physicists remind us that a perfect vacuum does not exist – there are always particles present, constantly fluctuating. Yet in capital markets, investors consistently search for their own version of a vacuum, perfect certainty. Arguably, this pursuit has become a persistent source of confusion across both the economic and geopolitical landscape during the first half of 2026.

Early in 2026, S&P 500 Index sector leadership reflected concerns that artificial intelligence (AI) could disrupt industries and eliminate jobs. Technology-oriented sectors were among the weakest performers through February. These concerns soon extended into private credit markets, particularly where lending exposure to small companies — software firms included — raised questions of vulnerability.

Geopolitical developments intensified the market’s sensitivity to headlines. In March, previously strong rallies reversed sharply, including those in precious metals and South Korea’s KOSPI Index – a key proxy for emerging market technology equities. Markets briefly shifted into a wartime posture, and energy equities and commodities rallied significantly.

Over the course of the past year, it has become increasingly clear that the global race for AI leadership is reshaping the investment landscape. Geopolitics, geography, and geology are now central forces influencing markets in 2026. These dynamics are playing out across regions such as Iran, Venezuela, Ukraine, and even Greenland, as major powers seek to secure long-term strategic advantages in resource-rich areas. In our view, this trend is structural and unlikely to abate.

We all lack perfect certainty, but the first half of 2026 reminds us that extrapolating from news headlines typically makes for fragile market momentum and a dubious investment strategy. Headlines only hint at the positive economic trend we see in the global AI competition and the parallel worldwide resource race. Yet, trying to identify all of tomorrow’s eventual winners and losers is akin to predicting, in 1995, which early computer companies or internet domains would dominate a decade later. The signal is there — but it is obscured by noise.

Our investment approach is grounded in cutting through that noise. We focus on long-term structural trends that we believe will preserve and grow wealth over time. Discipline is active — not passive. Our goal is to deliver clear, actionable insight to help investors navigate an increasingly complex environment.

We take this responsibility seriously and approach it with humility and care. On behalf of my colleagues at the Wells Fargo Investment Institute and our advisors, I want to thank you for the continued trust you place in us.

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- The U.S. dollar will likely remain rangebound through year-end 2026, caught between lingering policy uncertainties and still-solid U.S. fundamentals.

Global equities Pages 8–11

Earnings growth to fuel returns

- We expect resilient 2026 earnings growth, especially in areas tied to AI, will play a greater leadership role than valuation expansion, but domestic and international political uncertainty is likely to produce more periods of market volatility.
- We favor remaining focused on durable fundamentals, pricing power, and long-term structural trends rather than short-term swings in sentiment.

Global fixed income Pages 12–14

Staying selective in a higher-rate environment

- We believe a durable U.S. economy and an energy-driven inflation bump will likely leave Federal Reserve (Fed) policy steady through year-end 2026.
- Our view is that strong corporate earnings will support credit markets but favor prioritizing credit selectivity while yield spread rises between short- and longer-term securities.

Global real assets Pages 15–17

Potential opportunities in commodities

- Crude oil and refined product prices are likely to moderate from their wartime highs but remain above prewar levels while geopolitical risks linger.
- We see potential opportunities to rotate exposure from Energy toward our favorably rated sectors, Precious Metals and Industrial Metals.

Global alternative investments¹ Pages 18–19

Alternative investments for volatile markets

- The buildout of AI-related technologies and infrastructure will likely extend well beyond public mega cap tech firms to include significant activity across alternative categories such as private equity, private debt, and private infrastructure.
- In our view, strengthening market conditions and supportive structural trends point to alternative investment opportunities with potential for diversification and improved risk-adjusted returns.

Portfolio ideas Pages 20–23

Five investment ideas for the balance of 2026

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 25–27 for important definitions and risk considerations.

2026 and 2027 economic and market targets

GLOBAL ECONOMY	LATEST	2026 TARGETS	2027 TARGETS
U.S. GDP growth	2.3% (Q1)	2.2%	2.4%
U.S. CPI inflation ¹	4.2% (May)	3.4%	2.8%
U.S. unemployment rate ²	4.3% (May)	4.7% (Dec.)	4.9% (Dec.)
Global GDP growth ³	3.5% (Q1)	3.1%	3.2%
Global inflation ³	2.9% (Q1)	3.5%	2.9%
Developed-market GDP growth ⁴	1.8% (Q1)	1.5%	2.0%
Developed-market inflation ⁴	3.2% (Q1)	3.4%	2.8%
Eurozone GDP growth	1.2% (Q1)	0.8%	1.5%
Eurozone inflation ¹	3.2% (May)	3.4%	2.1%
Emerging-market GDP growth	4.6% (Q1)	4.3%	4.1%
Emerging-market inflation	2.8% (Q1)	3.5%	3.0%

Sources: Wells Fargo Investment Institute and Bloomberg. All latest numbers from Bloomberg as of June 10, 2026. Targets for 2026 and 2027 are based on forecasts by Wells Fargo Investment Institute as of June 16, 2026, and provide a forecast direction over a tactical horizon through 2027. **Average percent change from the same period a year ago, unless otherwise noted.** GDP = gross domestic product. CPI = Consumer Price Index. 1. December-to-December change. 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.**

GLOBAL EQUITIES	LATEST	YEAR-END 2026 TARGETS	YEAR-END 2027 TARGETS
S&P 500 Index	7,580	7,800–8,000	8,600–8,800
S&P 500 EPS	\$278	\$345	\$390
Russell Midcap Index	4,274	4,400–4,600	4,800–5,000
Russell Midcap EPS	\$199	\$230	\$250
Russell 2000 Index	2,919	2,700–2,900	3,100–3,300
Russell 2000 EPS	\$74	\$85	\$100
MSCI EAFE Index	3,118	3,100–3,300	3,300–3,500
MSCI EAFE EPS	\$170	\$180	\$195
MSCI Emerging Markets (EM) Index	1,752	1,700–1,900	2,000–2,200
MSCI EM EPS	\$89	\$130	\$150

Sources: Wells Fargo Investment Institute and Bloomberg. Latest index level data from Bloomberg as of May 29, 2026. Latest EPS (earnings per share) figures are 2025 year-end consensus estimates as of May 29, 2026. All targets for 2026 and 2027 are based on forecasts by Wells Fargo Investment Institute as of June 16, 2026, and provide a forecast direction over a tactical horizon through 2027. **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	YEAR-END 2027 TARGETS
Federal funds rate	3.50%–3.75%	3.50%–3.75%	3.50%–3.75%
10-year U.S. Treasury yield	4.44%	4.25%–4.75%	4.50%–5.00%
30-year U.S. Treasury yield	4.97%	5.00%–5.50%	5.25%–5.75%

GLOBAL REAL ASSETS	LATEST	YEAR-END 2026 TARGETS	YEAR-END 2027 TARGETS
WTI crude oil price (\$ per barrel)	\$87	\$80–\$90	\$70–\$80
Brent crude oil price (\$ per barrel)	\$92	\$85–\$95	\$75–\$85
Gold price (\$ per troy ounce)	\$4,540	\$5,300–\$5,500	\$5,800–\$6,000
Bloomberg Commodity Index	345	360–380	380–400

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

CURRENCIES	LATEST	YEAR-END 2026 TARGETS	YEAR-END 2027 TARGETS
Dollars per euro exchange rate	\$1.17	\$1.14–\$1.18	\$1.17–\$1.21
Yen per dollar exchange rate	¥159	¥160–¥164	¥158–¥162
Dollar composite exchange rate ²	99	97–101	95–99

Sources: Wells Fargo Investment Institute and Bloomberg, as of May 29, 2026. Targets for 2026 and 2027 are based on forecasts by Wells Fargo Investment Institute as of June 16, 2026, and provide a forecast direction over a tactical horizon through 2027. 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.**

2. Represented by the ICE U.S. Dollar Index, which 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.

Geopolitics and AI in the driver's seat

Key takeaways

- We expect a rotation toward technology-led investment growth to counter a temporary loss of consumer spending momentum from an energy-led spike in inflation.
- Modest economic and labor-force growth and other labor-market adjustments are likely to slightly raise unemployment rates by year-end.
- Our targets suggest a more marked slowing in overseas economic growth relative to the U.S. pace, due to generally higher international exposure to imported energy and foreign trade.

What it may mean for investors

- Our expectations for comparatively greater U.S. energy independence should continue to support the U.S. dollar's value against international currencies, but relatively greater energy-related inflation overseas works against the dollar by narrowing the U.S.-international interest rate gaps. On balance, we expect a steady U.S. dollar value in the remainder of 2026 against developed-market currencies, but a slightly weaker dollar in 2027.

Economic growth detour, not derailment

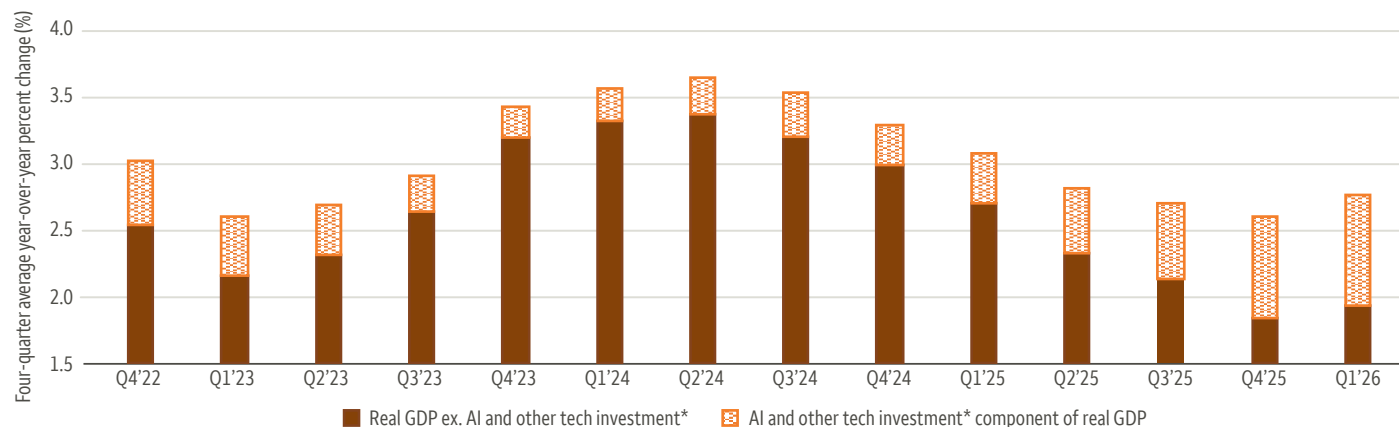
We expect full-year, inflation-adjusted U.S. GDP growth in 2026 of 2.2%, slightly below its average since 2009. The boom in AI and other technology spending is triggering a rotation from consumer- to investment-led growth, as highlighted in the chart on page 7. There has been a parallel shift from services to manufacturing-led strength, paced by AI-related capital spending and accelerated during the Iran war by a shortage mentality encouraging inventory building.

Energy-related headwinds to U.S. and global growth will likely counter AI-related support during the balance of 2026. A rapid drawdown of fossil-fuel stocks reported by the International Energy Agency (IEA) is already creating activity restrictions in the airline and other energy-intensive industries. We anticipate it will take weeks or months for seaborne traffic to reach distant global destinations because of logistical and other hurdles, even after the Strait of Hormuz reopens.

Modestly lower global oil demand projected by the IEA this year due to the latest price spike translates to a mild global economic-growth slowdown led by Asia and Europe, which will likely deepen if the waterway's shutdown becomes more extended.

We expect a squeeze on household purchasing from a war-related bulge in energy, food, and core-goods inflation to hit hardest at lower-income finances already pressured by slowing wage growth, the elevated cost of essentials, and a historically low savings rate. The disparity between smaller and larger company profitability and finances also will persist, in our view, because larger firms typically have greater pricing power, are less credit-sensitive, and boast access to a broader array of low-cost financing. We believe housing's growth contribution during the rest of 2026 will be limited by affordability pressure from mortgage rates boosted by elevated inflation.

AI and other tech investment driving U.S. economic growth



*Data centers, power, tech and other electronic structures, info-processing equipment & software.

Sources: Wells Fargo Investment Institute, U.S. Census Bureau, and U.S. Department of Commerce. Data as of May 7, 2026.

We anticipate a resilient economy and modest labor-force growth to temper AI-related disruptions in limiting the rise in the unemployment rate. Announced layoffs this year have centered on AI's frontline technology sector, masking net declines elsewhere. Massive layoffs have never accompanied periods of technological innovation since the industrial revolution nearly 200 years ago. We believe AI's job-enhancement opportunities and revenue-driven gains in hiring will exceed job displacement in this cycle, as well.

Inflation pressures back in focus until supply-chain disruptions abate

Lingering war-related risk premiums and product shortages should slow inflation's decline, even as war-related supply disruptions eventually ease. We expect only a limited rise in core-goods inflation from more piecemeal, drawn-out tariffs replacing the levies struck down by the Supreme Court earlier this year. We believe restraints on food, energy, and core-goods inflation will combine with disinflation in rental and other services to leave overall, 12-month CPI inflation at 3.4% by year-end 2026 (WFII estimate).

Overseas economies to be hit harder by energy supply shock

Developed and emerging economies import more of their energy supplies and depend more on price-sensitive trade in manufactured goods than the U.S. does.

We expect economic growth abroad to converge modestly in 2027 with the U.S. rate as supply chains normalize and disinflation resumes with a presumed end to the Iran war.

We think economic growth in Europe and Japan also will be handicapped by structural weaknesses that include shrinking populations, elevated debt levels, and a comparatively more complex regulatory environment than in the U.S. In addition, we view Europe's smaller, less dynamic tech sector as likely to leave the continental economy more exposed to the negative impact of Persian Gulf-related supply-chain disruptions. China, by contrast, is better positioned, in our view, due to its more dynamic tech sector, diversified energy sourcing, and scope for more aggressive fiscal stimulus.

U.S. dollar likely remains rangebound through 2026

The U.S. dollar's value likely faces cross currents that leave it range-bound in 2026 against developed and emerging currencies alike. U.S. energy abundance should support our economic growth compared to the pace overseas. However, the extra energy-price-related inflation in those countries could narrow international interest differentials and weigh on the U.S. dollar energy abundance should support U.S. economic growth (and the dollar) compared to overseas economies and their currencies. However, more narrow international interest-rate differentials and elevated foreign-investor hedging should cap dollar upside.

Earnings growth to fuel returns

Key takeaways

- Earnings growth, rather than valuation expansion, is likely to drive equity returns with AI-related investment and productivity gains anchoring fundamentals despite ongoing market volatility.
- In our view, sustained AI capital spending favors U.S. Large Cap Equities and select Emerging Markets (EM) while increasing performance dispersion, leaving smaller, less resilient companies more vulnerable.

What it may mean for investors

- We prefer U.S. Large Cap Equities and U.S. Mid Cap Equities (favorable) over U.S. Small Cap Equities (unfavorable). Within international equities, we hold a neutral view on both Developed Market ex-U.S. Equities and Emerging Market Equities.

Favored asset classes

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

Favored equity sectors

- Financials, Industrials, Information Technology (IT), Materials, and Utilities

Favored sectors and sub-sectors

- **Financials:** Capital Markets, Diversified Banks, Insurance Brokers, Multi-Sector Holdings, Regional Banks
- **Industrials:** Aerospace & Defense, Machinery, Electrical Equipment
- **Information Technology:** Communications Equipment, Technology Hardware, Storage & Peripherals, Semiconductors, Semiconductors Materials & Equipment
- **Materials:** Construction Materials, Industrial Gases, Specialty Chemicals
- **Utilities:** Electric Utilities, Multi-Utilities, Independent Power & Renewable Electricity Producers

Sector preferences are based on certain views and assumptions of market and economic conditions which are subject to change.

The central pillar of our equity outlook remains continued earnings growth, despite ongoing uncertainties about the Iran war and periodic questioning about technology’s long-term role in the economy. AI is now the dominant trend, but rising net profit margins predate AI and reflect accumulated technology investment from recent decades. Compared to past bull markets that heavily relied on financial leverage or cost cuts, current earnings growth and stock-market strength reflect a broad, multiyear

investment cycle in AI infrastructure, compute capacity, data-center expansion, electrification, and adjacent industrial and financial ecosystems.

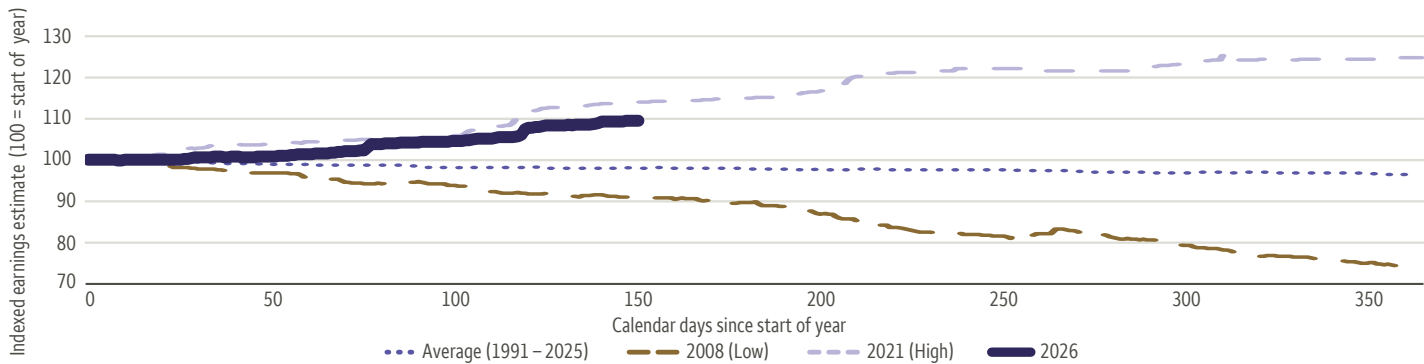
We expect these capital investments to remain elevated for the foreseeable future. What’s more, we expect the trend to extend into power generation, grid infrastructure, electrical equipment, engineering services, and machinery, supported by a diverse set of capital-markets players.

In fact, 2026 earnings expectations for U.S. large cap companies have risen through the end of May and imply double-digit earnings growth. As illustrated in the chart, S&P 500 Index earnings are outpacing start-of-year estimates at the strongest pace outside of a post-recession rebound dating back to 1991.

Headline risks may periodically pressure equity prices, and prolonged supply disruptions in energy, petrochemicals, fertilizers, and industrial inputs could become a headwind to spending as inventory buffers continue to thin. However, company guidance indicates continued spending growth even as microchip and other hardware costs rise due to higher petrochemical and power-generation costs. While questions around AI revenue generation and capital-spending intensity may continue to surface, we view these debates as part of a normal digestion process rather than a signal of structural deterioration. As we look into 2027, we believe the net effect of AI adoption will support earnings growth and breadth not undermine them.

Against this backdrop, we view U.S. Large Cap Equities favorably. This asset class generally has strong balance sheets, pricing power, diverse and global revenue streams, and the ability to self fund capital investment. We believe these companies are also best positioned to absorb fluctuations in commodity prices, navigate geopolitical uncertainty, and adapt to shifting regulatory and policy environments. Importantly, while current S&P 500 Index valuations remain slightly above their 1980-2020 average, rising forward earnings expectations should continue to help compress multiples over time without requiring price appreciation to stall. In our view, the risk to U.S. large cap equities is not that fundamentals weaken but that headline noise may distract investor attention. This shows how disciplined investing can be an important tool.

Annual S&P 500 Index earnings estimates by calendar year



Sources: Wells Fargo Investment Institute and Bloomberg. Data as of May 29, 2026.

Please see pages 25-27 for important definitions and risk considerations.

We believe U.S. Mid Cap Equities also benefit from the current economic environment as well as the AI theme, and we retain a favorable outlook. Many mid caps are embedded in the same AI-driven investment supply chain as larger firms, particularly within Industrials, Financials, and select Technology sub-sectors, but trade at less demanding valuations. That said, mid caps remain more sensitive to economic momentum than large caps and less insulated from episodic risk off moves. For that reason, we see U.S. Mid Cap Equities allocations as a complement to — but not a substitute for — large cap leadership.

In contrast, we see less upside for U.S. small cap equities through year end 2026 and maintain our unfavorable rating. Even assuming modest economic growth, the combination of higher interest rates, higher labor cost sensitivity, and limited pricing power may constrain earnings visibility for smaller firms. AI adoption has the potential to enhance productivity but introduces disruption risk that disproportionately affects companies with narrow business models and limited capital buffers. Lack of balance-sheet diversity may also weigh on these companies when policy uncertainty rises. We maintain our unfavorable rating on U.S. Small Cap Equities.

Outside the U.S., a balance of factors leaves us neutral on both Developed ex-U.S. and EM Equities. Earnings prospects for Emerging Market Equities are improving, with the MSCI Emerging Markets Index's exposure to AI having grown in recent years. However, a prolonged Middle East conflict remains a risk for energy-importing overseas economies.

The MSCI Emerging Markets Index's exposure to AI hardware, semiconductors, and technology-enabled manufacturing has grown in recent years, and it is evolving to take a greater share of the global AI supply chain. On the negative side, emerging markets historically have exhibited boom-bust dynamics, with government intervention capable of quickly altering industry economics and returns on capital. In addition, an escalating or prolonged Iran conflict remains a key downside risk, particularly for energy-importing economies in Asia, where higher oil prices could weigh on growth and margins. These counterbalancing risks temper the constructive earnings outlook, leaving our rating neutral, implying that we favor portfolio exposure at a full long-term allocation.

Developed Markets outside the U.S. also occupy a neutral position in our outlook. While valuations are generally less demanding and balance sheets are healthy, earnings-growth expectations remain subdued relative to both the U.S. and emerging markets. Structural factors including slower growth, demographic challenges, and fiscal constraints limit upside potential in our view.

Sector outlook

Our economic outlook remains positive this year, but our sector views now place greater emphasis on the AI capital-formation cycle underway, favoring Information Technology, Industrials, Materials, Utilities, and Financials. Information Technology is benefiting from expanding earnings contributions across the hardware ecosystem. Industrials are capturing new opportunities in power generation, the electric grid, and supporting infrastructure. A renewed global push to secure raw materials, critical inputs, and industrial commodities is driving capital investment and reinforcing pricing power across the Materials value chain. Utilities are seeing rising load-growth expectations, supported by a healthy pipeline of large power projects. Meanwhile, key areas within Financials are seeing stronger loan growth and capital-markets activity as AI investment expands in scale and scope.

We expect the buildout phase of AI to remain front and center through the remainder of 2026 and believe a few key principles are important here. First, within the Information Technology sector, we expect the favorable impact to remain largely concentrated within hardware-related areas, although we do believe participation over the balance of the year could broaden, driven by a lengthening list of components that are in high demand or outright shortage. We see this pressure creating a constructive earnings view for more than just the leading semiconductor companies. Thus, while we typically like to provide guidance along sub-industry lines, here we remain focused on a preference for hardware over software. We do not yet have the visibility to call for broader participation at the application layer, at least among public companies.

In addition, some of the key enablers of the capital-formation cycle look attractive, including Electric Utilities, Machinery, Construction Materials, and Diversified Banks. The bulge of data-center and power-generation construction projects 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 will remain well positioned in the coming quarters. In addition, as the incremental support for this dynamic increasingly comes from private equity and debt issuance, we see additional opportunities for Capital Markets.

Another theme that has resurfaced in the wake of the Iran conflict and broader supply-chain uncertainty is pricing power. Supply shocks have become more common in recent years, reinforcing the case for consistent capital allocation to sub-industries with durable pricing power, including Industrial Gases and Specialty Chemicals.

Other industries critical to the AI race can pass cost increases through to customers, including Tech Hardware, Electrical Equipment, and Aerospace and Defense. We also expect similar pricing power in Semiconductors and Semiconductor Materials & Equipment, which remain in strong demand for AI computing power.

Equity sub-sector preferences

SECTOR GUIDANCE	SUB-SECTOR GUIDANCE		
	GUIDANCE	SECTOR	
		FAVORABLE	UNFAVORABLE
	MOST FAVORABLE	Financials	Regional Banks; Capital Markets; Diversified Banks; Insurance Brokers; Multi-Sector Holdings
	FAVORABLE	Information Technology	Semiconductors; Semiconductor Materials & Equipment; Communications Equipment; Technology Hardware, Storage & Peripherals
		Industrials	Aerospace & Defense; Machinery; Electrical Equipment
		Materials	Construction Materials; Industrial Gases; Specialty Chemicals
		Utilities	Electric Utilities; Independent Power & Renewable Electricity Producers; Multi-Utilities
	NEUTRAL	Health Care	Health Care Equipment & Supplies; Life Sciences Tools & Services
		Communication Services	Interactive Media & Services
	UNFAVORABLE	Consumer Discretionary	Broadline Retail; Hotels, Restaurants & Leisure; Specialty Retail
		Consumer Staples	Beverages; Consumable Staples Merchandise Retail; Household Products
		Energy	Integrated Oil; Midstream Energy
		Real Estate	Data Center REITs; Health Care REITs; Industrial REITs

Source: Wells Fargo Investment Institute; favored sub-sectors by Global Securities Research (GSR) and favored sectors by Global Investment Strategy (GIS). As of June 16, 2026. Sector preferences are based on certain views and assumptions of market and economic conditions which are subject to change.

Staying selective in a higher-rate environment

Key takeaways

- We expect the Fed to maintain a cautious, wait-and-see approach to policymaking, while new leadership, under Chairman Kevin Warsh, is likely to reinforce a policy bias toward a smaller Fed balance sheet rather than signal abrupt shifts in interest-rate policy.
- We expect earnings growth and generally strong fundamentals to support performance across most investment-grade (IG) bond issuers.

What it may mean for investors

- High-quality fixed income can play a critical role in portfolios with potential to provide income, stability, and diversification at a time when markets are adjusting to higher interest rates and greater geopolitical uncertainty.

Favored sectors

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

Favored sectors and sub-sectors

- **IG Credit:** IG Corporate bonds in Telecom and Utilities (See table on page 16)
- **Securitized Securities:** Residential Mortgage-Backed Securities and Asset-Backed Securities
- **Municipal Bonds:** Local General Obligation Bonds and Essential Service Revenue Bonds

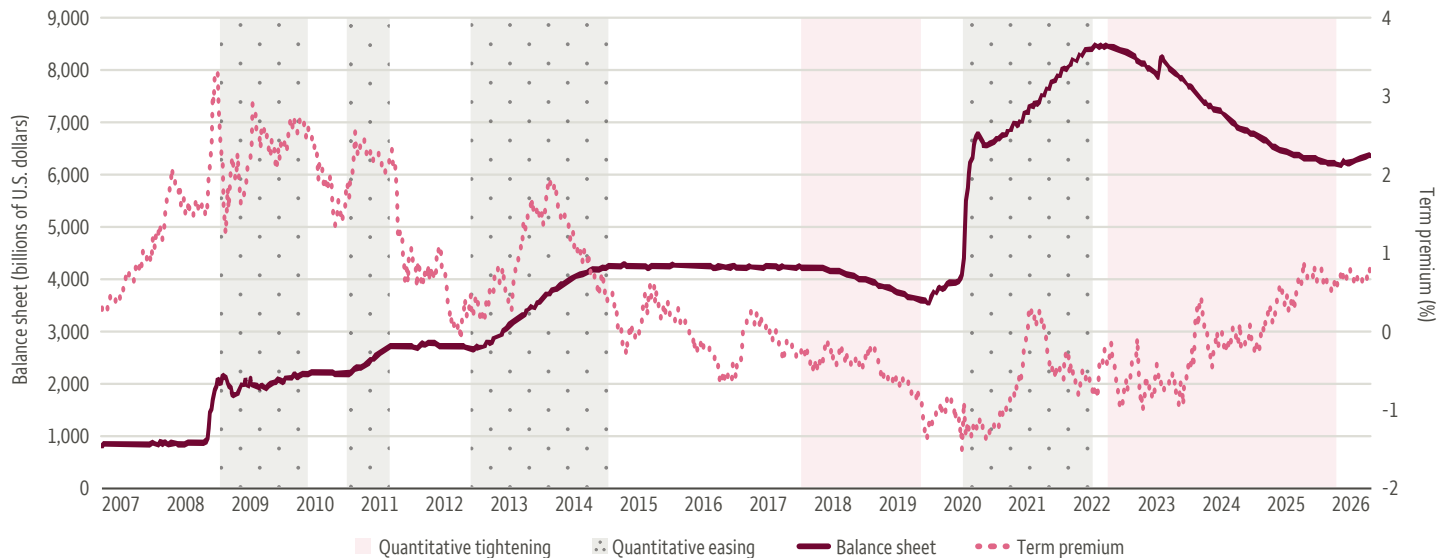
Sector preferences are based on certain views and assumptions of market and economic conditions which are subject to change.

Our expectation for higher-for-longer energy prices are likely to keep inflation and interest rates elevated, limit the Fed's flexibility to cut short-term interest rates, and create upward pressure on long-term rates (lower bond prices). In the near term, the U.S. Treasury continues to lean heavily on Treasury bills to avoid shifting debt issuance back into longer maturities at a time when the Fed may pull back on buying those same longer maturities as part of its balance sheet reduction.

We expect the Fed to maintain a cautious, wait-and-see approach. Fed officials broadly view the neutral-policy rate near current levels, limiting the urgency to either ease or tighten policy. We do not expect any Fed rate cuts or hikes between now and year-end 2027.

The confirmation of Kevin Warsh as Fed chairman likely reinforces a policy bias toward a smaller Fed balance sheet and potentially more volatile long-term yields. To shrink its balance sheet, the Fed would reduce its holdings of long-term Treasuries and mortgage-backed securities, thereby reducing Treasury-security demand (and prices). Yields could rise and become more volatile if economic growth is variable into 2027 as we expect. The chart on page 13 illustrates that Fed balance sheet reductions in recent years accompanied a rising yield premium — called a term premium — that buyers required to hold the long-term debt that the Fed was no longer purchasing.

Less Fed demand may raise term premium



Sources: Bloomberg and Wells Fargo Investment Institute as of May 29, 2026. "Quantitative tightening" refers to Fed balance sheet shrinkage; "Quantitative easing" to balance sheet expansion. Term premium is measured by the Adrian Crump & Moench 10-year Treasury term premium. Dates used for Quantitative easing: 11/25/2008–3/31/2010, 11/3/2010–6/29/2011, 9/13/2012–10/29/2014, and 3/15/2020–3/10/2022. Quantitative tightening: 10/1/2017–8/1/2019 and 6/1/2022–12/1/2025. **Past performance is not a guarantee of future results.**

These factors together support our view of higher-for-longer interest rate levels and continued yield-curve steepening through year-end 2027. We continue to view intermediate-term fixed income (3–7 year maturities) as offering an attractive balance between income and interest-rate risk. In contrast, long-term bonds remain vulnerable to rising term premium and heavier issuance, supporting our unfavorable stance. Also, we continue to favor exposure to IG credit risk, particularly high-quality IG corporate bonds and mortgage-backed and asset-backed securities, which we expect will continue to provide attractive income opportunities.

Opportunities and challenges for global bonds

The European Central Bank, Bank of England, and Bank of Japan retain a bias to raise policy rates, keeping upward pressure on front-end yields. At the same time, longer dated yields also face upward pressure from elevated sovereign issuance, tighter balance-sheet policies and rebuilding term premium. Further opportunities may arise, but for now, we maintain our preference for domestic bonds over international and we are currently neutral on Developed Markets ex-U.S. Fixed Income.

Emerging markets (EM) bonds could provide a more attractive opportunity, particularly once a resolution to the Middle East conflict is reached. These bonds offer higher yields than in the U.S. or other developed markets, which may serve as a cushion in case of credit risk. We maintain a neutral overall view on EM Fixed Income, while remaining constructive on adding additional exposure following market pullbacks, especially for yield-seeking potential.

Corporate credit: attractive yield amid uncertainty

We look for IG corporate bonds to remain well positioned to serve as a potentially steady source of income and stability through year-end. While credit spreads are tight compared to historic averages, effective yields remain attractive compared to the past two decades. Although debt issuance and leverage have increased, we expect earnings growth and generally strong business fundamentals to support performance across most IG issuers. In our view, some single-A rated issuers may engage in aggressive shareholder return programs and pursue acquisitions to the detriment of balance-sheet strength — the practical effect being to increase the dispersion among individual issuer performance.

Careful sector and issuer selection should help investors capture attractive yields while navigating ongoing macroeconomic and geopolitical uncertainty. Telecommunications and Utilities sectors, which tend to offer relatively higher yields, offer value that is supported by stable cash flows and lower sensitivity to economic volatility. As Technology sector index yields have risen and some issuers have taken steps to improve their balance sheets, we've tempered our cautious view toward the bonds of technology issuers building data centers and other AI infrastructure. Our greatest concern remains the consumer-facing industries, particularly consumer staples, where relatively low yields may not fully reflect the risks presented by pressured consumers with changing tastes and rising input costs.

Our neutral rating for high-yield bonds continues to emphasize the bifurcation in credit quality. Double-B-rated issuers are generally strong businesses that operate with higher leverage than IG issuers but maintain profitability and liquidity that we believe can support valuations — even during economic slowdowns. In contrast, single-B and lower-rated issuers account for roughly 45% of the Bloomberg U.S. Corporate High Yield Bond Index and are more dependent on continued economic growth and steady access to capital markets. Positively, the high-yield bond universe is less exposed to software and business service firms that may face greater disruption from AI, especially when compared with direct-lending and private-credit markets.

Municipal bonds: worth a look

Municipal-bond credit fundamentals remain generally solid in our opinion, supported by strong reserve levels, conservative budgeting, and steady revenue collections. Looking ahead, credit pressure could build in select areas, particularly those with meaningful exposure to federal funding. Medicaid-dependent healthcare systems and issuers reliant on disaster related reimbursements, such as Federal Emergency Management Agency (FEMA) support, appear more vulnerable as federal funding becomes less certain and pandemic-era stimulus fades. Elevated energy prices, tariffs, and broader economic uncertainty may also strain revenues, especially for issuers with limited financial flexibility.

We currently observe more credit rating upgrades than downgrades, but the gap between upgrades and downgrades has narrowed. Within sectors, select transportation credits, notably toll roads and airports, continue to stand out as relative bright spots while parts of higher education and healthcare face growing headwinds from funding pressure, rising costs, and weakening demand trends.

We anticipate opportunities close to the dividing line between IG and High Yield Bonds. We expect credit performance to be driven more by issuer and sector specific fundamentals, reinforcing the importance of disciplined credit selection — particularly in areas exposed to federal funding risk. Overall, we anticipate municipal-credit conditions will remain broadly supportive through the rest of 2026, supported by prudent financial management, a focus on preserving reserves, and continued investor demand for high-quality, tax-exempt income.

Fixed income | Sector and sub-sector preferences

SECTORS	SUB-SECTORS	
	FAVORABLE	UNFAVORABLE
Investment-grade credit (favorable)	IG Corporate bonds in Telecom and Utilities	IG Corporate bonds in Consumer Discretionary and Consumer Staples
Securitized (favorable)	Residential mortgage-backed securities, Asset-backed securities	
Municipal bonds (favorable)	Local General Obligation bonds, Essential Service Revenue	Smaller health-care providers, Smaller private universities

Sources: Wells Fargo Investment Institute — Global Investment Strategy (GIS) and Global Securities Research (GSR) as of June 16, 2026. Sector preferences are based on certain views and assumptions of market and economic conditions which are subject to change.

Potential opportunities in commodities

Key takeaways

- We expect economic and monetary policy trends to favor the commodities metals.
- Digital assets provide an opportunity for investors to add diversification and exposure to what we believe will be transformative technologies and next-generation payment systems.

What it may mean for investors

- We prefer to rotate Energy sector gains into Precious and Industrial Metals, which we believe may offer greater upside through year-end.
- We recently initiated guidance on digital assets as a sector of Commodities, and favor a 2%–3% allocation within the Growth and Growth and Income investment objectives.

Favored sectors

- Precious Metals
- Industrial Metals

Favored sub-sectors of Real Estate

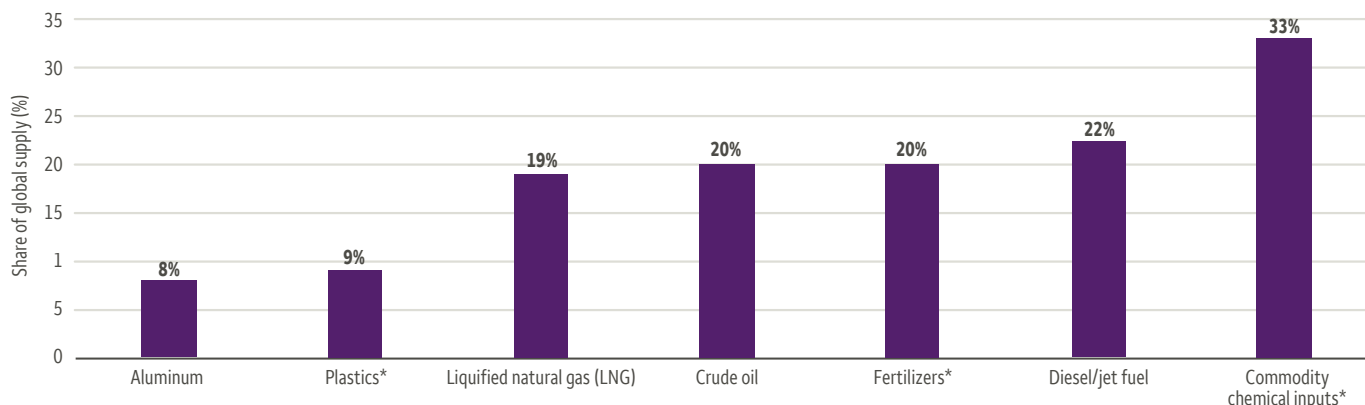
- Data Center REITs, Health Care REITs, Industrial REITs

Sector preferences are based on certain views and assumptions of market and economic conditions which are subject to change.

Energy and Agricultural commodities led the Bloomberg Commodity Index at times during the first half of 2026, as disruptions from the conflict in the Middle East upended global oil and petrochemical markets, including fertilizers (see chart on page 16). Higher energy prices are flowing through into commodities, particularly Agriculture, via higher input costs. Roughly 20% of global fertilizer supplies have been disrupted (see chart on page 16), increasing production costs at an important point for planting global agriculture. Rising transportation and machinery costs compound the pressures raising the likelihood for sticky agriculture prices even as immediate disruptions fade.

Energy prices could rise further if shortages develop, but we see both sides in the war under pressure to find a diplomatic solution. Some oil-price premium to account for possible future conflict will likely remain after the war ends, but we expect some production surplus. First, consider that today's supply shortage may be short-lived, once the war ends. Damage to Persian Gulf oil infrastructure appears limited thus far, and multiple sources, including Reuters, report estimates that a phased production restart could be accomplished over three to six months.

Middle East's share of global supplies



Sources: Wells Fargo Investment Institute, International Energy Agency, Energy Information Administration, DHL Group, Chemical Markets Analysis, Financial Times, and Wells Fargo Securities. *Plastics represents the median for polyethylene, polypropylene, and benzene; fertilizers represent the median for urea, phosphate, and ammonia; commodity chemical inputs represent the median for methanol, helium, and sulphur. Data as of March 31, 2026.

Second, we caution that market expectations could move toward a supply surplus after the war. Brazil, Canada, and the U.S. have already increased production since the war began. Also, OPEC+ was unwinding previous production cuts before the war and this is likely to continue after it ends.³ Today's modest production gains in these countries should add crude-oil supply after passage through the Strait of Hormuz reopens.

Likewise in agriculture, robust Latin American harvests should partially offset the effects of rising prices. Brazil's strong soybean harvests accounts for 42% of global production, according to S&P Global, and could act as a counterweight to sector performance. With rising near-term production costs remaining elevated, improved global-supply fundamentals support our neutral view on Agriculture.

As energy and agriculture prices moderate, we see an improving backdrop for metals. Our Precious Metals outlook is driven by historically low inflation-adjusted yields, low enough to encourage investors to buy a non-yield asset such as gold. Also, global central banks turned into net sellers of gold amid budget concerns early this year, but we expect central bank gold buying to reassert itself as energy cost constraints subside. We favor the precious metals sector.

Industrial Metals should also benefit from the same economic trends, along with structural demand growth in technology-related investment. Corporate capital spending for power generation, data centers, and AI continues to underpin demand, particularly for copper. While mined supply disruptions following shut-ins should recover, supply may struggle to keep up with rising demand, and so we also favor this metals sector.

Leveraging durable fundamental trends with equity REITs

Within Real Estate Investment Trusts (REITs), we prefer sub-sectors with greater exposure to secular growth drivers, including Data Center REITs, Health Care REITs, and Industrial REITs.

First, data-center demand and AI adoption should benefit the Data Center REITs sub-sector, and we see an incremental support in the form of network services that allow different telecommunications connections within data centers. These low-latency, highly secure connections will likely become increasingly important as enterprise adoption of AI grows, and they represents a recurring, relatively high-margin form of revenue for the REIT.

3. See OPEC Press Release, "Saudi Arabia, Russia, Iraq, UAE, Kuwait, Kazakhstan, Algeria, and Oman adjust production and reaffirm commitment to market stability," March 1, 2026. OPEC+ refers to OPEC (Organization of the Petroleum Exporting Countries) and allied non-OPEC oil producers that collaborate to manage global oil supply.

Next, as the first baby boomers begin turning 80 this year, a U.S. demographic shift represents an opportunity for companies with significant senior-housing exposure in the Health Care REITs sub-sector. While senior-housing development slowed meaningfully following the pandemic, growth of the 80-plus population has accelerated and is estimated to climb at a nearly 28% rate between 2024 and 2030, culminating in a supportive supply-demand backdrop.

Finally, we expect supply-chain reconfiguration and sustained e-commerce demand to support higher inventory levels, which should translate into greater tenant demand among Industrial REITs.

Real Estate sector and sub-sector preferences

SECTORS	SUB-SECTORS	
	FAVORABLE	UNFAVORABLE
Real Estate (unfavorable)	Data Center REITs, Health Care REITs, Industrial REITs	Timberland REITs

Sources: Wells Fargo Investment Institute — Global Investment Strategy and Global Securities Research as of June 16, 2026. Sector preferences are based on certain views and assumptions of market and economic conditions which are subject to change.

Digital assets — emerging opportunities

Digital assets have emerged as a potentially compelling addition to diversified portfolios, offering exposure to potentially transformative technologies and next-generation payment systems. We recently initiated guidance on digital assets as a sector of Commodities, in line with the classification guidance of the U.S. Commodity Futures Trading Commission, and are recommending a 2%–3% allocation within the Growth and Growth and Income investment objectives. We have observed that the prices of Bitcoin and Ethereum, two of the largest digital assets by market capitalization, have not moved closely with the S&P 500 Index price over the 10 years ended in May 2026. When asset prices do not move closely in tandem, they can help smooth portfolio returns and risk levels. Beyond diversification, we believe digital assets offer long-term growth if the underlying technologies and use cases continue to develop as we expect, positioning these assets as increasingly relevant components in a modern investment portfolio.

Please see pages 25-27 for important definitions and risk considerations.



Alternative investments for volatile markets

Key takeaways

- We believe the race for AI leadership, ongoing geopolitical events, and growing inflationary pressures could lead to greater market volatility and thereby create potential opportunities in alternative strategies such as hedge funds and private capital.
- In private equity, we continue to focus on higher-quality strategies that invest in more established companies.

What it may mean for investors

- We favor a diversified alternatives allocation that emphasizes flexible strategies, downside protection, and selective exposure to long-term growth themes like AI while maintaining caution in areas facing near-term liquidity or credit risks.

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**

Sector preferences are based on certain views and assumptions of market and economic conditions which are subject to change.

Flexible hedge-fund strategies for uncertain environments

Hedge funds encompass a broad range of strategies that seek to offer flexibility to express views, hedge unintended risks, and operate with less reliance on short-term market sentiment. These characteristics may help qualified investors block out noise and remain focused on opportunity sets as they develop.

We remain favorable on Equity Hedge – Long/Short Equity and Relative Value – Long/Short Credit strategies. These approaches may allow qualified investors to participate in

upward-trending markets while seeking to reduce downside exposure during periods of volatility through active risk management and security selection.

We also maintain favorable guidance on Macro – Discretionary strategies. These strategies allow experienced managers to actively adjust investments based on big picture trends, such as changes in interest rates, inflation, currencies, or commodity prices. Because managers can shift positions as conditions change, we believe these strategies are better equipped to navigate today's uncertain environment where geopolitical events, central-bank actions, and government policies are continually evolving.

Improving merger and acquisition (M&A) activity, along with supportive market conditions, is helping to create possible opportunities. Deal pricing and timelines remain in line with historical averages, while stable corporate confidence and a more favorable tax and regulatory backdrop including potential benefits from the One Big Beautiful Bill Act (OBBBA), will encourage more companies to pursue acquisitions, supporting continued M&A activity.

Private capital: balancing risk and resilience

We continue to focus on higher-quality private equity strategies that invest in more established companies. In particular, we remain positive on Growth Equity, which typically involves taking minority stakes in businesses with proven business models and more predictable revenues or earnings. Within Buyouts, we prefer Small- and Mid- Buyouts strategies over Large Buyouts. These smaller deals may benefit from lower entry valuations and may offer opportunities to improve operations and boost productivity, creating long-term value for investors.

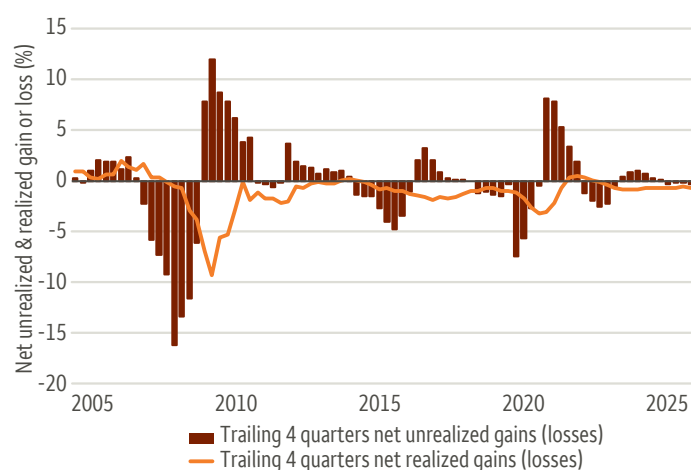
Unlike the broader private equity landscape, venture capital deal activity surged to a record \$267 billion in the first quarter of 2026, driven largely by AI and machine-learning related companies, which accounted for more than 89% of total deal value.⁴ However, this activity was concentrated in a small number of mega deals, suggesting the broader venture capital market remains in a gradual recovery.

We also maintain a favorable view on Private Equity - Secondaries. Instead of investing directly in a new fund from the beginning, secondary investors (buyers) purchase an existing stake from an original investor or fund manager, typically at a discount. In this way, secondaries can offer investors access to mature portfolios. We are seeing increased transaction activity, as measured by Cliffwater.

Private debt is facing closer scrutiny as investors reassess credit conditions, access to liquidity, and the potential impact of AI across the economy. These concerns have led to increased redemption requests and put pressure on asset prices and valuations. As a result, we see near-term challenges for growth in the private-debt market following several years of rapid expansion. Yet, to date, we have not seen signs of broad-based credit deterioration.

Historically, when direct lending investments experience actual losses (eg., global financial crisis and pandemic era), those losses are usually preceded by noticeable declines in portfolio values that show up as unrealized losses (see chart below). As of the end of 2025, however, unrealized losses remained relatively low, suggesting that widespread losses may not be imminent. Against this backdrop, we maintain a neutral view on Private Debt – Direct Lending, reflecting a balance between risks and opportunities.

Low unrealized losses suggest limited near-term stress in direct lending



Sources: Wells Fargo Investment Institute and Cliffwater Direct Lending Index (CDLI), data as of December 31, 2025. Unrealized gains or losses reflect estimated value of loans that are still held in the portfolios of the managers that constitute the CDLI. These changes affect the value of the portfolios reported in the CDLI but do not involve actual cash received or lost by investors. Realized gains or losses occur when a loan is repaid, sold, or written off and the actual cash outcome is known. They represent the final profit or loss from an investment and directly impact investor returns.

We continue to see opportunities in other areas of private debt, particularly Distressed Credit and Special Situations. We believe these approaches can be considered as higher interest rates, slowing growth, and pressure on company profits lead to financial stress. Geopolitical uncertainty and supply-chain disruptions may add to these pressures, creating opportunities for skilled managers to invest in deeply discounted fixed-income instruments.

Lastly, we remain constructive on Private Infrastructure. We look for long-term tailwinds — including aging U.S. infrastructure, the energy transition, and rising demand for digital assets — to support continued growth and an expanding role for private capital.

4. "Pitchbook NVCA Q1 2026 Venture Monitor," Pitchbook, April 2026.

Please see pages 25-27 for important definitions and risk considerations.

Five investment ideas for the balance of 2026

1 | Keep exposure to equities, but be selective

We prefer U.S. equity markets over international markets and U.S. large-cap and mid-cap stocks over smaller companies. Strong resilience to tariffs and energy abundance reinforce our relative preference for U.S.-focused investment guidance. Targeted fiscal incentives, deregulation, and sustained technology investment have underpinned corporate profitability, and U.S. large- and mid-cap stocks delivered double-digit earnings growth in three of the last six quarters.

Investment incentives tied to capital expenditures supporting that growth have sparked an increasingly aggressive corporate capital-spending cycle, benefiting sectors most directly exposed to investment activity, notably Information Technology, Industrials, Materials, and Utilities. We believe these sectors will capture rising demand tied to infrastructure upgrades, automation, electrification, and data center expansion. At the same time, Financials, our most favored sector, tends to benefit from a combination of a temporary boost as households spend their tax refunds, a more favorable regulatory environment, and a pickup in M&A activity that should increase fee income and capital-markets revenues.

Looking ahead, AI adoption is accelerating across industries, driving a productivity-led investment cycle that will likely extend through 2027. We continue to favor this theme, particularly among firms with pricing power and mission critical exposure to AI-related investment. Semiconductor, machinery, systems software, and electrical-equipment companies, for example, seem well positioned to improve margins and enhance operational efficiency.

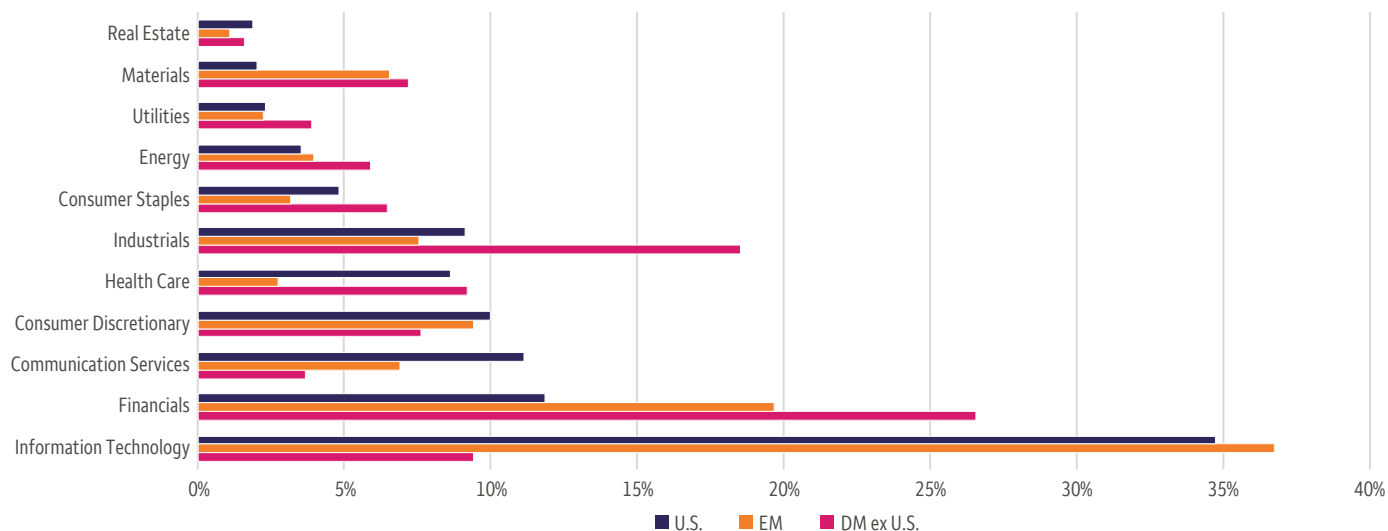
While near-term headlines may introduce volatility, a disciplined focus on high-quality U.S. large- and mid-cap equities should benefit investors in the coming quarters. We believe sectors and industries emphasizing AI-enabled productivity and pricing power remain compelling additions to equity portfolios.

2 | Broaden AI exposure

We see AI portfolio diversification opportunities within both global equities and the commodity space. Within EM equities, there has been an ongoing, large-scale structural change in the makeup of the index over the past few decades, with the representative MSCI EM Equity Index now having a similar weight to the Information Technology sector as the U.S. large-cap space has (see chart on page 21). Chinese companies now compete directly against U.S. firms to develop their own, possibly lower-cost, AI models. Moreover, Asian EM companies are responsible for many of the chips and other electronic components necessary for the AI-related data-center buildout. Regardless of the ultimate winners and losers in developing AI solutions, we believe EM equities stand to gain and have an important place in portfolios.

Meanwhile, the more traditional resource-related portions of the portfolio may also benefit from AI. Large quantities of industrial metals are needed to build and power AI data centers. While energy prices will likely fall from the current wartime highs, we expect price support for metals from ongoing capital spending to build compute power and data centers. We favor the S&P 500 Index Utilities, Industrials and Materials sectors in part for their role in building the data centers that support AI computing.

U.S. and EM equity markets more driven by AI and tech



Sources: Wells Fargo Investment Institute and Bloomberg. As of April 30, 2026. EM = Emerging Markets. DM = Developed Markets. The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the U.S. market. Representative indexes are MSCI USA Index, MSCI Emerging Markets Index, and MSCI World ex USA Index.

3 | Reconsider international equity markets

Over most of the past 16 years, investors have had reasons to overweight U.S. equity exposure. Between September 2010 and December 2024, the MSCI EM Net Total Return Index underperformed the S&P 500 Index Net Total return by 60%. For its part, the MSCI Europe, Australasia, and the Far East Index underperformed the S&P 500 index by 39%. In addition, the ICE U.S. Dollar Index gained over 30% over that same time, making a significant headwind for investments overseas. As a result, today we find many U.S. investors with heavy U.S. equity allocations, sometimes with no international exposure at all.

But we also see the world changing. In particular, the competition to develop new technology tools has emerged as one of the strongest trends we see since 2025 and into the coming years. Japan, for example, is a developed economy that has increased its industrial access to China through industries that produce robotics. Importantly, the MSCI EM Information Technology Sector Index exposure differs from that of the U.S. in ways that we believe are advantageous in the current phase of the AI cycle. The MSCI EM index is heavily weighted toward hardware and semiconductor manufacturing rather than application layer software, which gives the AI trend a somewhat different emphasis than in the U.S.

Moreover, the pandemic-driven switch to redundant supply chains is well along, but the war in Iran adds a new wrinkle. We see more countries, such as Australia, Canada, Brazil, and Nigeria, potentially expanding their energy production, while energy importers also seek to diversify their sources of supply. The search may extend to other natural resources (e.g., rare earth metals) and international payment systems to compete with the U.S. SWIFT system.⁵

The reliance on multiple ways to do business globally seems a durable trend. At the same time, valuations on the two international indexes mentioned in the previous paragraph remain substantially discounted relative to U.S. equities, especially as earnings expectations continue to move substantially higher. Risks remain in that international markets will likely continue to be vulnerable to extended disruptions in global energy flows or renewed dollar strength, but these risks will likely be intermittent rather than persistent. We favor considering a boost to international equities that takes this exposure to long-term strategic weights.

5. The Society for Worldwide Interbank Financial Telecommunications (SWIFT) system is a global messaging network that enables secure and efficient international money and securities transfers.

Please see pages 25-27 for important definitions and risk considerations.

4 | Prioritize income in an uncertain world

For investors who are retired or nearing retirement, income generation is likely a primary consideration for portfolio construction. Notably, for the first time in nearly two decades, the yield on a 10-year U.S. Treasury bond has climbed to a level that supports a 4% payout rate (a level that is generally accepted as sustainable over a long-term investment horizon).⁶ If investors are willing to assume a modest level of credit risk, investing in U.S. Investment Grade Corporate bonds today may allow investors to secure a yield similar to that of a 10-year U.S. Treasury note, but with a shorter maturity. We prefer investment-grade corporates in the three-to-seven-year maturity range.

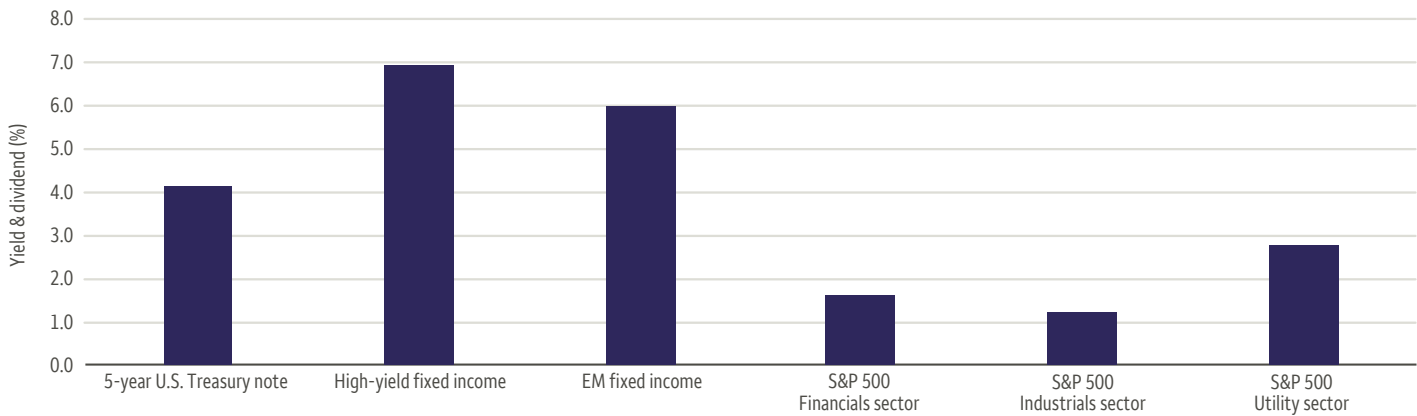
Although investors are now able to lock in higher yields than we’ve seen in decades, today’s economic backdrop brings key risks that include inflation, income replacement (i.e., replacing maturing bonds with new assets paying similar interest rates), and stock market concentration with high-level uncertainty as markets digest the effects of the U.S.-Iran war and accompanying high oil prices, a new Fed chairman, and an upcoming mid-year election that may have impacts on fiscal policy, both before and after the election.

To address inflation risk, we prefer income sources that can grow when prices rise. Because traditional fixed income typically cannot hedge inflation risk, we prefer a diversified income mix that includes dividend-paying equities, especially in sectors that tend to benefit from inflation, as shown in the chart below.

Investors should offset the risk of income replacement by diversifying fixed-income exposure beyond core holdings with high-yield bonds (currently paying almost 7%) and EM bonds (currently paying approximately 6%). We also favor municipal bonds for investors in higher tax brackets.

Finally, we think income investors should consider investing in equities, while guarding against concentration risk. Dividends have been a steady, diversifying source of income and many dividend-paying stocks fall outside of the AI theme that has pushed technology-related concentration higher in the S&P 500 Index. While higher dividend paying stocks may not always be the fastest growing names, they may be more resilient as technology-related equities enter periods of selling, as we have seen repeatedly since at least last October.

Portfolios may benefit from diversified income sources



Sources: Wells Fargo Investment Institute and Bloomberg. Data as of May 29, 2026. EM = Emerging Market. **Yields and dividends represent past performance, which is no guarantee of future results.**

6. "Determining Withdrawal Rates Using Historical Data," William Benggen, Financial Planning Association Journal, October 1994.
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5 | Turn volatility into opportunity with discipline

2026 has reinforced a volatility environment that likely now feels familiar for investors: unsettling headlines that bring market pullbacks followed by more headlines that bring relatively swift recoveries. With no shortage of geopolitical shocks, higher inflation expectations, growth uncertainties, AI developments, and fiscal and monetary policy changes, volatility has normalized compared with the post-global financial crisis era.

Instead of reducing equity exposure during bouts of downside volatility, we favor a disciplined approach to use volatility to reduce exposure in areas of the portfolio that have moved above the target allocation and rebalance into any areas that have moved below the target allocation. We recently recommended taking gains in both energy commodities and energy stocks and putting those proceeds into areas with stronger fundamentals, namely Information Technology, Precious Metals, and Industrial Metals.

Investors can use volatility to put new money to work, getting into the market at a discount before a potential eventual recovery. Currently, we recommend directing new money to areas that we expect to provide somewhat of a buffer should the Iran war lead to more sustained supply-chain disruptions or demand destruction. Within the Materials and Industrials sectors, we expect several subsectors to perform well.

- Industrial Gases and Specialty Chemicals benefit from mechanisms such as surcharges that allow them to pass higher input costs to customers.
- Machinery and Equipment should see tailwinds from continued data center buildout.
- Aerospace and Defense is supported by increased U.S. defense spending, including efforts to replenish weapons inventories and invest in emerging areas like drone warfare.

Overall, these subsectors stand out for their potential to maintain margins, capture structural demand, and benefit from supportive macro trends.

Equities should end the year higher, and we encourage investors to avoid the impulse to reduce equity exposure to avoid volatility. Instead, investors should remain disciplined around adding exposure during headline-driven drawdowns or using the noise as an opportunity to rebalance into favored asset classes, sectors, and subsectors.



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Definitions

An index is unmanaged and not available for direct investment.

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 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.

HFRF 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 HFRF Fund Weighted Composite Index does not include Funds of Hedge Funds.

Note: HFRF 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 HFRF 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.

The KOSPI (Korea Composite Stock Price Index) is the benchmark stock market index for South Korea, representing all common stocks traded on the primary board of the Korea Exchange (KRX). It functions as a primary economic gauge for the country, much like the S&P 500 does in the United States.

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.

MSCI Australia Index is designed to measure the performance of the large and mid-cap segments of the Australia market.

MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI Far East Index is a benchmark designed to measure the equity market performance of mid- and large-cap companies within the Far East region.

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, comprised of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc. A higher index value indicates dollar appreciation.

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.

MSCI World ex USA Index captures large and mid-cap representation across Developed Markets countries, excluding the United States.

MSCI EM (Emerging Markets) Information Technology Index is a stock market benchmark designed to measure the performance of large- and mid-cap technology companies across 24 emerging markets.

MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the U.S. market. With 621 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.S.

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 Index

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 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

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

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

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

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.

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. **International 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. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

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. 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. **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-backed and asset-backed 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

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 & specialty 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.

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.

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