

Illustrative Example: How Capital-Preservation Positioning Helped Reduce Interest-Rate Sensitivity

A clear example of how capital-preservation positioning can matter began forming in 2020 and became especially relevant by 2022. In August 2020, the U.S. 10-year Treasury yield fell to approximately 0.65%, one of the lowest levels seen in modern history. In such an environment, investors relying on traditional intermediate-term bond exposures, often represented by broad indices, faced elevated duration¹ risk without receiving much yield in return. Many widely used fixed income benchmarks, including those tracking diversified investment-grade markets, carried durations near six years, leaving investors meaningfully and unknowingly exposed to interest-rate volatility as the next rate cycle approached.

Managers who were not constrained by benchmarking and were focused on preserving capital theoretically had the flexibility to consider model allocations emphasizing shorter-maturity, higher-liquidity index exposures instead of maintaining a full weighting in intermediate-term, benchmark-aligned bond segments. By utilizing index-based exposures to ultrashort fixed income, short-duration strategies, and investment-grade floating-rate notes, whose coupons adjust periodically with changes in prevailing interest rates, managers had the potential opportunity to reduce overall duration while maintaining diversified fixed income exposure. These types of index components may have allowed for a repositioning that sought to moderate sensitivity to rising rates while giving up minimal yield, particularly at a time when longer-duration bonds offered historically low compensation.

This type of allocation shift would not require managers to eliminate core bond exposure entirely. Instead, it would allow them to right-size their use of intermediate-term index exposures and complement them with lower-duration segments. In doing so, managers may be able to construct index-based models that maintain transparency, liquidity, and quality while aiming to reduce the impact of interest-rate movements on investors portfolio values.

2022: A Historic Bond Market Decline and the Value of Capital-Preservation Positioning

In 2022, the bond market experienced one of its steepest declines on record, with the Bloomberg U.S. Aggregate Bond Index falling around (-13.0%) amid the fastest Federal Reserve tightening cycle in forty years. Investors whose fixed income exposure remained tied to intermediate-term benchmark indices saw the impact of this shift, as those indices carried significant duration entering the rate-hiking environment. In contrast, investors who had the foresight to reposition using index exposures focused on ultrashort duration, short-maturity bonds, floating-rate notes, and higher-liquidity segments were structurally less sensitive to rising yields. (See Figure 1 and Figure 2). While no allocation eliminates risk, emphasizing shorter-duration and rate-responsive index exposures likely helped reduce the effect of rapid interest-rate changes and demonstrates how thoughtful, index-based model construction can support investors during periods of elevated volatility.

Investment and Insurance Products are:

- **Not Insured by the FDIC or Any Federal Government Agency**
- **Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate**
- **Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested**

	2021 Return	2022 Return	Cumulative 2021-2022
AGG	-1.77%	-13.01%	-14.55%
BKLN	2.32%	-2.52%	-0.26%
ICE BofA 3-6M T-Bill (GOB2)	0.06%	1.37%	1.43%

Figure 1: Index sources: Bloomberg U.S. Aggregate Bond Index; Morningstar LSTA U.S. Leveraged Loan 100 Index; ICE BofA 3-6 Month US Treasury Bill Index (GOB2).

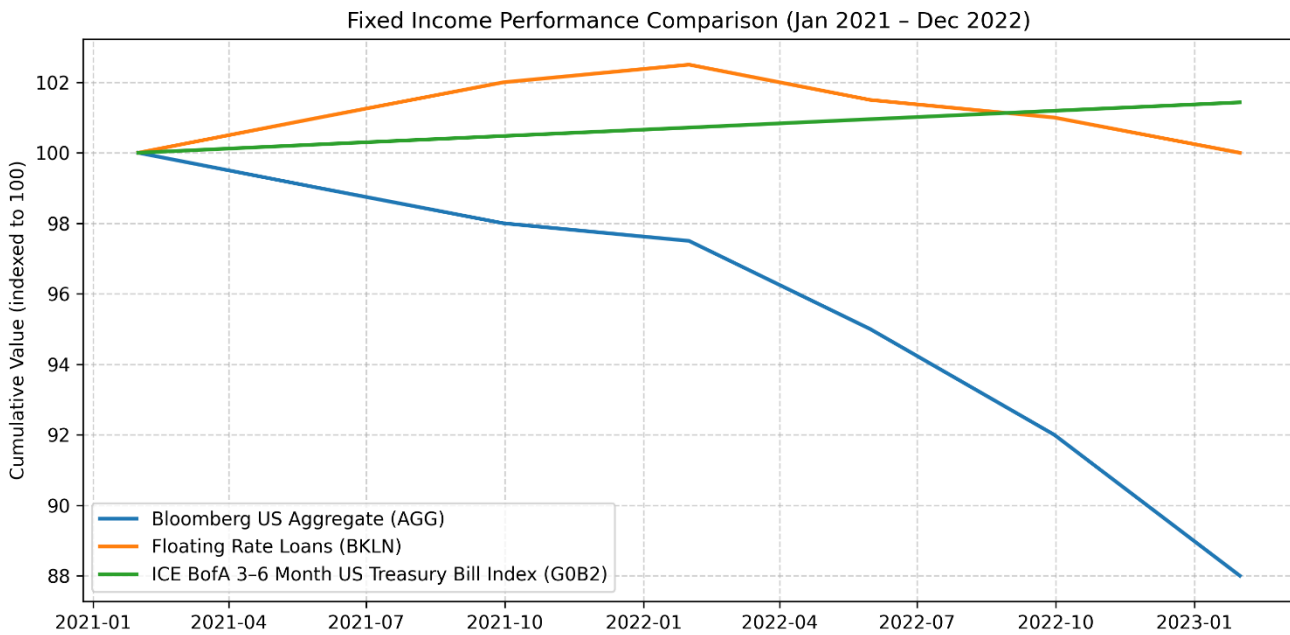


Figure 2: Index sources: Bloomberg U.S. Aggregate Bond Index; Morningstar LSTA U.S. Leveraged Loan 100 Index; ICE BofA 3-6 Month US Treasury Bill Index (GOB2).

A Stronger Foundation for Future Opportunities

Investors who were positioned to preserve capital during the historic bond market volatility of 2022 entered the following period with greater flexibility and stability. By emphasizing index exposures with lower duration, higher liquidity, or rate-responsive characteristics, this strategy may have helped moderate the impact of rising interest rates and maintained valuable “dry powder” within fixed income models. This liquidity and stability may have created the ability to rebalance thoughtfully as market conditions evolved, allowing investors to allocate toward areas that offered more attractive risk-reward characteristics once yields reset higher. This approach reflects the broader value of maintaining disciplined risk management and adaptable model construction, using index-based building blocks to help support long-term, risk-adjusted outcomes across shifting market environments.

Disclosures

All investing involves risks, including the possible loss of principal. There can be no assurance that any investment strategy will be successful or that a fund will meet its investment objective. Investments fluctuate with changes in market and economic conditions and in different environments due to numerous factors, some of which may be unpredictable.

Advisory programs are not designed for excessively traded or inactive accounts and are not appropriate for all investors. During periods of lower trading activity, your costs might be lower if our compensation was based on commissions. Since no one manager/investment program is appropriate for all types of investors, this information is provided for informational purposes only. We need to review your investment objectives, risk tolerance, and liquidity needs before we introduce appropriate managers/investment programs to you. Please carefully review the Firm's advisory disclosure document for a full description of our services, including fees and expenses. There are minimum account size requirements for these programs.

The report herein is not a complete analysis of every material fact in respect to any company, industry or security. The opinions expressed here reflect the judgment of the author as of the date of the report and are subject to change without notice. Any market prices are only indications of market values and are subject to change. The information contained herein is based on technical and/or fundamental market analysis and may be based on data obtained from recognizable statistical services, issuer reports or communications or other sources believed to be reliable. However, such information has not been verified by us, and we do not make any representations as to its accuracy or completeness. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can cause a bond's price to fall. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Comparisons to benchmarks (broad-based indices) have limitations because benchmarks have volatility and other material characteristics that may differ from those of the portfolio. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison. There is no guarantee that the index reflects the asset allocation or portfolio characteristics of the manager's strategy or that any of the securities in the portfolio are included in the Index. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.

Bloomberg U.S. Aggregate Bond Index (AGG) is a broad, market-value-weighted measure of the U.S. investment-grade bond market, including Treasuries, government-related bonds, corporate bonds, MBS, CMBS, and ABS. The Index is unmanaged, not subject to fees or expenses, and not available for direct investment.

Morningstar LSTA U.S. Leveraged Loan 100 Index (BKLN) is a market-weighted index representing the 100 largest U.S. institutional leveraged loans, selected based on size, liquidity, spreads, and interest-payment features. The Index is unmanaged, does not incur fees or expenses, and cannot be invested in directly.

ICE BofA 3-6M U.S. Treasury Bill Index (GOB2) is a market-value-weighted index designed to track the performance of U.S. Treasury bills with remaining maturities between three and six months. The Index reflects the total return of short-term U.S. government obligations and serves as a benchmark for ultra-short-duration cash management strategies. The Index is unmanaged, not subject to fees or expenses, and is not available for direct investment.

¹Duration is a measure used to determine a bond's or bond portfolio's sensitivity to movements in interest rates. Generally, the longer the duration the more sensitive a bond or bond portfolio is to changes in interest rates

©2026 Wells Fargo Clearing Services, LLC. All rights reserved.