

Investment Strategy

Weekly guidance from our Investment Strategy Committee May 4, 2026

Equities Spotlight: Resiliency of Emerging Market Equities..... 2

- Emerging markets in Asia are more exposed to the war in Iran, as they tend to rely on energy import from the region, yet are outperforming other major equity asset classes year-to-date.
- We currently have a neutral rating for Emerging Market (EM) Equities, meaning a full, strategic weighting in client portfolios, and would consider a potential upgrade if market volatility presents an opportunity to invest at more attractive prices.

Fixed Income: Finding value in community college credit 4

- Credit strength varies across tax-backed, state-supported, and enrollment-driven community colleges, underscoring the importance of targeted credit selection rather than broad sector exposure.
- Community colleges generally benefit from public funding support and workforce-aligned missions, positioning them more favorably than tuition-dependent small private institutions facing enrollment declines and pricing pressure.

Real Assets: Data-center REITs offer exposure to AI theme..... 5

- As artificial intelligence (AI) investment and implementation have accelerated, data-center real estate investment trusts (REITs) have experienced unprecedented demand.
- We are favorable on the Data Center REITs sub-sector as we believe it possesses durable growth prospects, attractive margins, and solid pricing power.

Alternatives: Digital infrastructure saw rapid growth amid challenge..... 6

- Private capital digital infrastructure experienced rapid growth in 2025, primarily driven by strong demand for datacenters.
- While structural tailwinds may support the sector’s long-term growth, we believe digital infrastructure faces several challenges, which reinforces the importance of diversified allocations across both traditional and emerging private real asset sectors.

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

Equities Spotlight

Douglas Beath

Global Investment Strategist

Awsaf Tamjid Arko

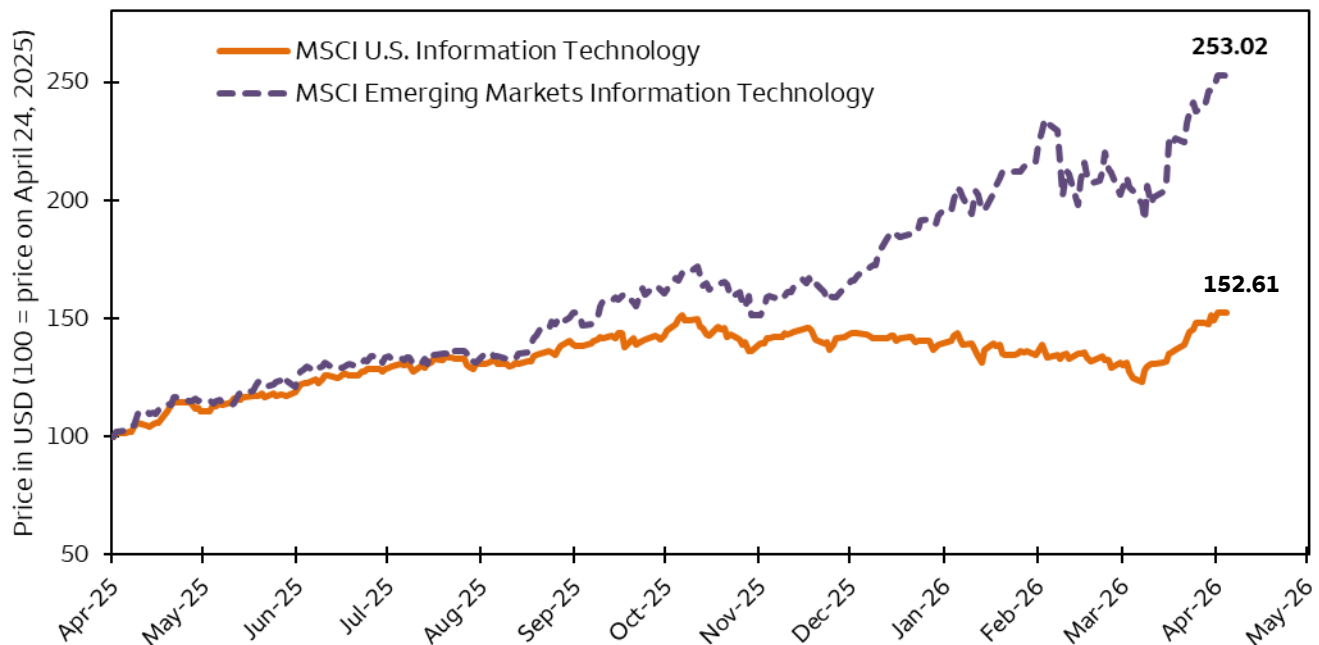
Investment Strategy Analyst

Resiliency of Emerging Market Equities

The MSCI Emerging Markets Index was the best performing major equity class in 2025 for the first time since 2017, and that strength continued in the first two months this year prior to the Iran war, supported by strong earnings revisions and growing concentration in AI (AI hardware and semiconductor supply-chain leaders) along with a depreciating U.S. dollar.

Emerging markets (EMs) in Asia are more exposed to the war in Iran as they tend to rely on energy imports from the region. Specifically, prior to the war, countries in Asia received more than 80% of the oil and liquified natural gas delivered through the Strait of Hormuz. Thus, it was not surprising that the MSCI Emerging Markets Index decline of over 13% in March was nearly double that of the S&P 500 Index. As of this writing, there is still no clear path to a peace deal between the U.S. and Iran. The U.S. continues to maintain a blockade on Iran, and the Strait of Hormuz remains essentially closed. EMs have rebounded sharply, however, since global equities bottomed out on March 30 and are outperforming other major equity asset classes year-to-date through April 24.

Chart 1. EM Information Technology has outpaced U.S. counterpart



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data as of April 24, 2026. Index values are denominated in U.S. dollars. Index level of 100 represents prices on April 24, 2025. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Since the end of March when markets began to pivot and sense that an eventual deal between the U.S. and Iran would come to fruition rather than escalation, investors began looking through the stalled negotiations to focus once again on the positive fundamentals for EM Equities:

- Strong 2026 earnings growth potential: 2026 consensus estimates have risen approximately 25% since October 2025 versus about 7% positive revision in the S&P 500 Index.

- Favorable valuations: Forward price earnings multiple of 12.4 versus 21.8 on the S&P 500 Index, implying EMs are still relatively cheap.
- U.S. dollar: The U.S. Dollar Index's (DXY) spike at the beginning of the conflict as a perceived safe haven asset has reversed course, benefiting EM equities. The U.S. dollar has mostly given back its gain from the start of the conflict.

Developing country foresight

A deeper dive into EMs reveals foresight and readiness among major constituents — representing over 80% of the MSCI Emerging Markets Index — which has lessened the war's impact:

- China (19%) began stockpiling more than one million barrels of oil per day in 2025, with current reserves estimated to cover more than two years of consumption.
- Taiwan (25%) has significantly increased its energy security measures, with crude oil imports from the U.S. rising to account for roughly 60% of its total supply. This marks a major shift from previous years, when imports were dominated by Middle Eastern suppliers.
- South Korea (18%) has managed to secure 80% of normal import levels, increasingly turning to the U.S. for energy supplies.
- India (12%) is heavily dependent on supplies transiting the Strait of Hormuz but has resumed importing oil and gas from Iran and Russia, using a temporary U.S. sanctions waiver.
- Brazil (5%) has benefited from higher commodity prices as a net exporter of oil.

EM technology sector

EMs are moving beyond their traditional roles as commodity producers and low-cost manufacturing hubs. Many now benefit from stronger domestic consumption and increased participation in globally competitive technology sectors linked to AI. As a result, the MSCI Emerging Markets Index has become increasingly concentrated in technology.

Notably, the primary chipmaker for the world's largest publicly traded company is headquartered in Taiwan and represents 14.5% of the MSCI Emerging Markets Index. South Korean technology companies are global leaders in semiconductors, consumer electronics, and digital services. Together, Taiwan and South Korea now account for over 40% of the MSCI Emerging Markets Index.

While the U.S. technology sector has recovered to its March 2025 level, EM technology has gained roughly 50% over the same period, underscoring the segment's recent outperformance (see Chart 1). The EM technology sector's weight is now approximately 37.15%, with the S&P 500 Index following at 35.5%.

What it means for investors

The fact that developing nations' equities have been able to rebound alongside the S&P 500 Index despite the bloc's vulnerability to energy shocks shows the resiliency and value in the space, along with its increased weighting to the Information Technology sector. EM Equities remain vulnerable if the Iran war drags on with prolonged disruptions in the Strait of Hormuz, resulting in a depletion of Asian oil reserves. We currently have a neutral rating for EM Equities, meaning a full, strategic weighting in client portfolios, and would consider a potential upgrade if market volatility presents an opportunity to invest at more attractive prices.

Fixed Income

Brendan O'Sullivan

Municipal Analyst

Finding value in community college credit

Community colleges continue to carve out a more defined role within the higher education sector, offering a lower-cost, workforce-aligned alternative to traditional four-year institutions at a time when affordability and student outcomes are under heightened scrutiny. Compared with many small private universities facing enrollment declines, rising discounts, and limited pricing power, community colleges operate under a more flexible and resilient model. The combination of public support and strong connections to regional workforce needs has contributed to more stable credit profiles, particularly as demographic shifts and changing student preferences place pressure on traditional higher education models.

Credit quality within the community college sector, however, is far from uniform, making careful analysis of underlying revenue structures critical. Tax-backed districts typically exhibit the strongest credit characteristics, supported by dedicated property tax revenues and local governance. State-supported systems are more reliant on the consistency and predictability of legislative appropriations, introducing greater exposure to fiscal and political risk. Institutions that are more tuition- and enrollment-driven warrant deeper scrutiny, as financial performance is closely tied to student demand, program relevance, and disciplined expense management.

Across all funding models, we believe community colleges with strong alignment to regional employment needs — such as healthcare, skilled trades, and technical education — are better positioned to sustain enrollment and maintain financial stability. While community colleges are not without risk, they generally display a more adaptable and resilient credit profile than small, tuition-dependent private universities. For investors, our view is that attractive opportunities are driven by disciplined credit selection — focusing on revenue structure, funding stability, and workforce alignment — rather than assuming uniform credit quality across community college issuers.

Real Assets

John Sheehan, CFA

Equity Sector Analyst, Real Estate (REITs)

Amanda Martinez

Equity Sector Analyst, Real Estate (REITs)

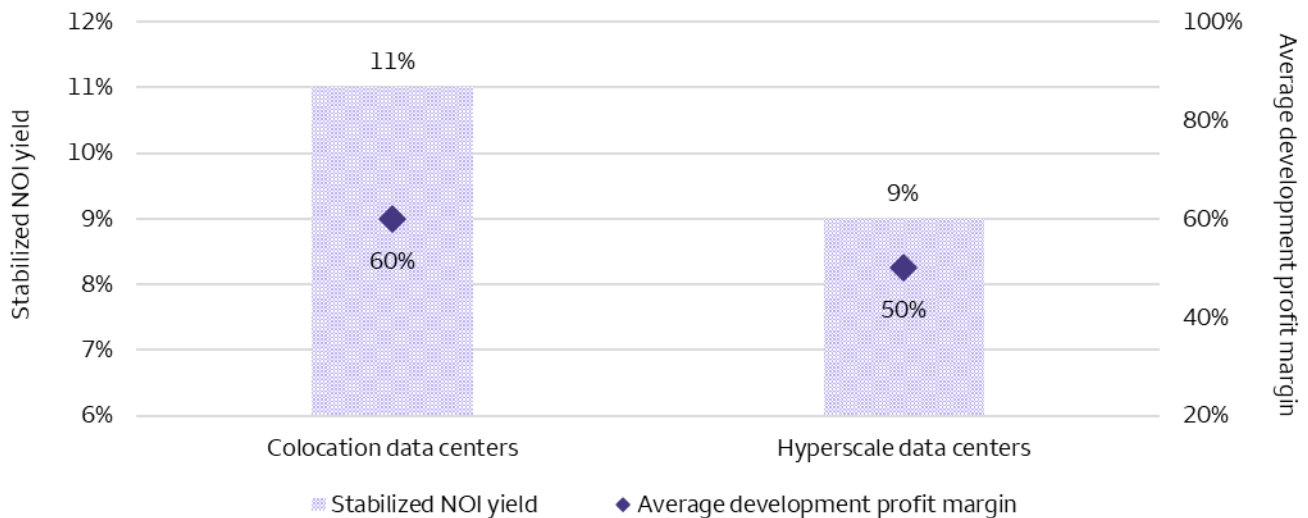
Data-center REITs offer exposure to AI theme

As AI investment and implementation have accelerated, the Data Center REITs sub-sector has experienced unprecedented demand. Offerings from these companies vary to include, generally speaking, the following:

- **Single tenant:** data centers with a single tenant (typically hyperscalers or neocloud providers) and long-term leases
- **Colocation:** data centers with multiple tenants and shorter-term leases
 - Includes a subset of network-dense data centers in which tenants can connect directly with cloud providers, carriers, and other enterprises through recurring, fee-based services offered by the REIT
- **Shells:** buildings that offer connections to power, cooling, and connectivity while the tenant installs and maintains their own data-center infrastructure

Larger data-center REITs’ income sources are often diversified by this range of offerings, and we see colocation and interconnection as particularly notable features of the businesses. Colocation allows multiple tenants — ranging from hyperscalers to smaller enterprises — to operate within the same facility. On average, colocation data centers generate higher stabilized net operating income yields and represent higher average development profit margins compared to hyperscale data centers (as shown in Chart 2). Meanwhile, interconnection enables lower-latency connections and translates to higher tenant retention. This stickiness, high switching costs, and shorter-term leases have together supported rent growth, and recurring fees for connections represent another source of revenue for the REIT.

Chart 2. Development economics for hyperscale versus colocation data centers in the U.S.



Sources: Green Street and Wells Fargo Investment Institute. Data as of February 28, 2026. Chart represents U.S. colocation and hyperscale estimates by Green Street. NOI = net operating income. Estimates can vary greatly based on market, operator, interconnection density (colocation only), and development budget. Stabilized NOI yields and development profit margins for powered-shell and triple-net leases would be lower. **Past performance is no guarantee of future results.**

Ultimately, we are favorable on the Data Center REITs sub-sector and view it as an attractive route for gaining exposure to the AI theme within the Real Estate sector, particularly as AI use cases continue to expand and support sustained demand and pricing power.

Alternatives

Chao Ma, PhD, CFA, FRM

Global Portfolio and Investment Strategist

Digital infrastructure saw rapid growth amid challenge

Digital infrastructure — including datacenters and telecommunications assets — has seen rapid growth in fundraising in recent years, according to Pitchbook. Capital raised for digital infrastructure reached nearly \$160 billion in 2025, almost doubling the average annual level of the past decade (see Chart 3). In 2025, the sector represented about two-thirds of total infrastructure fundraising, with total assets under management reaching roughly \$250 billion.¹ Much of this growth has been driven by planned investments in datacenters, which are typically large-scale, capital-intensive development projects.¹

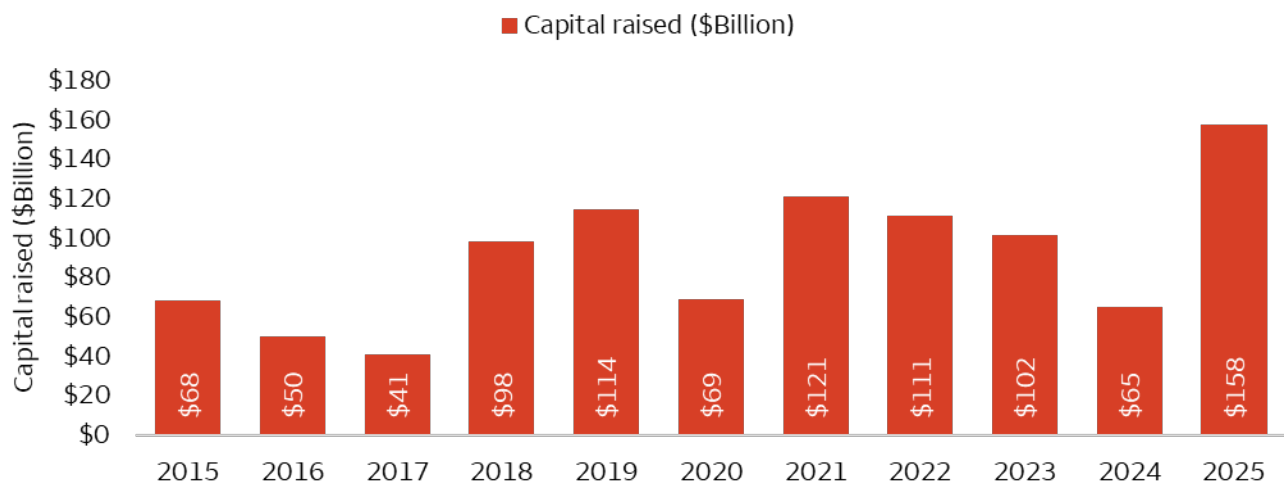
We believe the strong investor interest has been supported by expectations that AI and cloud computing could drive increased data usage, productivity gains, and sustained demand for digital capacity. While we expect these structural tailwinds to support the long-term growth of digital infrastructure, we see that the sector is still relatively early in its development and faces several challenges.

We believe key risks to the sector include rising financing costs and higher development expenses resulting from potential interest rate increases, inflation pressure, and supply-chain disruptions linked to geopolitical tensions. Power availability constraints, permitting requirements, and local opposition can also extend development timelines. In addition, we believe rapid technological change introduces obsolescence risk, as computing hardware has a limited useful life and may require ongoing reinvestment and upgrades.

Although we believe the resulting supply constraints could support sector asset valuations, these factors may also contribute to wider performance dispersion among managers. We believe this highlights the importance of managers’ experience in project planning, execution, and risk management.

In an effort to balance long-term opportunities and risks, we prefer a diversified private real assets allocation — spanning infrastructure and real estate, as well as traditional and emerging sectors, such as digital infrastructure.

Chart 3. Global digital infrastructure fundraising reached \$158 billion in 2025



Sources: Pitchbook and Wells Fargo Investment Institute. Data as of December 31, 2025. Fundraising includes 39 private capital funds in 2025. See end of report for definition of Pitchbook data collection methodology. For illustrative and educational purposes only.

Alternative investments, such as hedge funds, private equity, private debt and private real estate funds are not appropriate for all investors and are only open to “accredited” or “qualified” investors within the meaning of U.S. securities laws.

1. “Analyst Note: Digital Infrastructure Funds Update,” Pitchbook, April 20, 2026.

Tactical guidance*

Cash Alternatives and Fixed Income

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

Equities

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Small Cap Equities	Developed Market Ex-U.S. Equities Emerging Market Equities	U.S. Large Cap Equities U.S. Mid Cap Equities	

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Commodities Private Real Estate	Private Infrastructure	

Alternative Investments**

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Hedge Funds—Equity Hedge Hedge Funds—Macro Hedge Funds—Relative Value Private Equity Private Debt	Hedge Funds—Event Driven	

Source: Wells Fargo Investment Institute, May 4, 2026. Please see Wells Fargo Investment Institute's Asset Allocation Strategy Report for more detailed, investable ideas in each asset group.

*Tactical horizon is 6-18 months

**Alternative investments are not appropriate for all investors. They are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. Please see end of report for important definitions and disclosures.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. The **commodities markets** are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

Definitions

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

MSCI Emerging Markets Information Technology Index is designed to capture the large and mid-cap segments across Emerging Markets countries. All securities in the index are classified in the Information Technology sector according to the Global Industry Classification Standard (GICS®).

MSCI U.S. Information Technology Index is designed to capture the large and mid cap segments of the US equity universe. All securities in the index are classified in the Information Technology sector as per the Global Industry Classification Standard (GICS®).

Pitchbook Fundraising Data for digital infrastructure in 2025 includes 29 generalist and 10 specialist funds followed by Pitchbook. Pitchbook uses a variety of publicly available sources found in targeted online searches including more than 1,000,000 web crawlers using national language processing and machine learning, secondary sources (those authored by someone not directly involved in the deal or fund), news (largest source of information), and other online sources. Quality assurance uses preventive validations, corrective validations, and mutual reviews in an effort to ensure accuracy of data. Data is educational and illustrative purposes only and there are no guarantees as to accuracy of data or content.

PitchBook defines private infrastructure as investments in private market assets that provide essential utilities, services, and transportation networks to populations. This includes sectors such as transportation (airports, roads, bridges, rail), utilities (gas, electric, water, internet networks), social infrastructure (hospitals, schools), and energy (power plants, pipelines, renewables like solar and wind farms), and digital infrastructure assets.

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.

U.S. Dollar Index (DXY) measures the value of the U.S. dollar relative to majority of its most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

An index is unmanaged and not available for direct investment.

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Market Commentary

Weekly perspective on current market sentiment

May 6, 2026



Scott Wren

Senior Global Market Strategist

Last week's S&P 500 Index: +0.9%

Current focus

Key takeaways

- Are investors too complacent and not taking into account the risks that still exist in the Persian Gulf?
- Should the Strait remain closed in the near-term one of the risks is further damage to fragile global energy supply chains.

The S&P 500 Index notched another new record high last Friday, even as oil traded above \$100 per barrel and negotiations between the U.S. and Iran do not seem to be going anywhere fast. Investors current focus is on spending related to Artificial Intelligence (AI) and first quarter (Q1) earnings reports. And for good reason. By some estimates, after raising their anticipated AI-related capital expenditures virtually every quarter in 2025, the biggest hyperscalers in the Magnificent Seven¹ were at it again in the Q1 earnings reporting season. Add in another large-cap tech company related to AI and the 2026 spending commitments are north of \$800 billion (no, that is not a typo). And on top of that, first quarter earnings in the Tech sector, and the market in general, are surging well ahead of expectations. In fact, based on the companies that have reported through last Friday, earnings are up 28.1% from the year-ago period (again, not a typo).

So are investors too complacent and not taking into account the risks that still exist in the Persian Gulf? The question of when the Strait of Hormuz will fully open to tanker and other traffic is not clearer now than it was six weeks ago. When the strait does eventually open, it will likely take many weeks for vessel traffic to catch up and get back to normal operations. And after a period of relative calm in recent weeks, U.S. Central Command (CENTCOM) announced on Monday that the U.S. military had battled back attacks from Iranian missiles, drones, and smaller armed boats while aiding the passage of two U.S.-flagged vessels through the strait. As we have stated in a previous report, we continue to believe that while the outlook remains uncertain, it increasingly appears that neither Tehran nor Washington is seeking a return to full-scale military confrontation. But clearly, risk levels remain elevated.

Should the strait remain closed in the near-term, another risk is damage to fragile global energy supply chains. Many important raw materials used in the production of fertilizers, copper refining, and helium are shipped through the strait. Inventories of these materials at some point will be exhausted. At that point, price volatility will likely turn into an actual shortage that disrupts the supply of refined products.

The question for investors is where to focus. On April 6, we noted that the current environment has driven a temporary earnings windfall for the Energy sector of the S&P 500 Index, but that benefit appears priced into the market. In our view, Information Technology (IT) looks more attractive from a valuation perspective. We upgraded IT and downgraded Energy a month ago and still like that rebalancing move. We see the same rationale in our preference to rebalance from energy to metals commodities.

But there's another way to see opportunities amid the large uncertainties still swirling, namely, to look for subsectors that could be resilient, even as energy prices rise. Industrial Gas companies generally can pass input cost inflation along to customers via surcharges at contract renewal time or on new projects. Specialty Chemical companies produce specialized output that generally creates sticky customer demand, which we expect will allow surcharges that pass their higher raw material costs on to customers. Meanwhile, we believe the Machinery and Electrical Equipment companies should continue to benefit from the domestic data center buildout, while Aerospace and Defense should stand out for persistent upward rerating on valuations as the U.S. rebuilds its military arsenal.

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1. The magnificent 7 include Apple Inc., Microsoft Corporation, Alphabet Inc., Amazon.com, Inc., NVIDIA Corporation, Meta Platforms, Inc., and Tesla, Inc.

Risk considerations

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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. This can result in greater price volatility. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather 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, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

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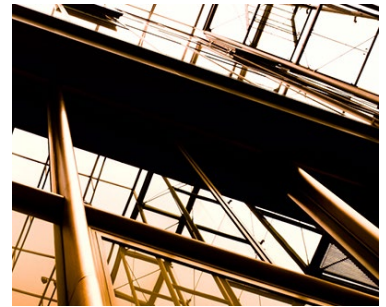
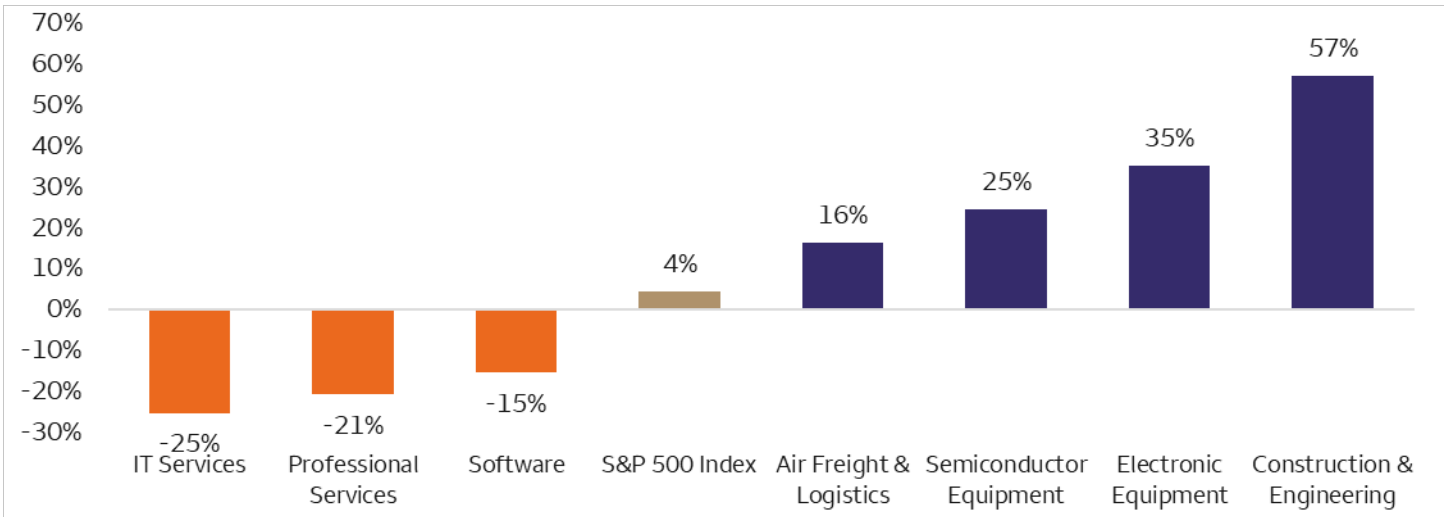


Chart of the Week

Weekly analysis of key themes in markets

May 5, 2026

S&P 500 advances, with returns driven by AI



Sources: Bloomberg and Wells Fargo Investment Institute. Year-to-date total return of S&P 500 index sub-sectors. Data as of April 28, 2026. IT = Information Technology. An index is not managed and not available for direct investment. **Past performance is no guarantee of future results.**

Artificial-intelligence (AI) exposure regains center stage

Equity markets have taken investors on a full round trip so far this year, with the S&P 500 Index falling from January highs to March lows before rebounding to a new record by mid-April. As geopolitical concerns eased, investor focus shifted back toward companies' exposure to AI. This shift has driven returns increasingly at the sub-industry level rather than across the broader market.

The chart illustrates this divergence, with direct beneficiaries of AI capital spending or businesses largely insulated from its potentially disruptive effect posting strong year-to-date gains and outperforming the broader S&P 500 Index's modest rise. In contrast, sub-industries viewed as most vulnerable to AI-driven disruption — including IT services, Professional Services, and Software — have materially underperformed.

What it may mean for investors

As geopolitical risks around Iran have eased, investor attention has returned to secular growth trends with strong fundamentals. In early April, we believed that much of the geopolitical risk premium had been priced into oil and we downgraded the Energy sector. Meanwhile, more attractive valuations, durable fundamentals, and renewed confidence in AI-driven growth led us to upgrade the Information Technology sector.

Alex Sagal, Investment Strategy Analyst

Excerpted from Investment Strategy report (April 27)

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State of the Markets

From the desk of Darrell L. Cronk



May 4, 2026



Darrell L. Cronk

President, Wells Fargo Investment Institute
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Strait talk — The most important questions

The Strait of Hormuz is 31 miles wide at its entrance and exit, and it is 104 miles long. It connects the oil-rich Persian Gulf with the Gulf of Oman.

Through two-mile-wide shipping lanes, outbound ships normally carrying 20% of the world's crude oil supply, 33% of the world's fertilizer, 30% to 35% of the world's helium supply, 20% of the world's liquefied natural gas, and 9% of the world's aluminum supply navigate these waterways, destined for China, India, Japan, South Korea, and other Asian markets.

Iran and Oman have claimed territorial sovereignty over the Strait of Hormuz since the 1970s. Following today's news makes it clear that this relatively tiny piece of geography is a critical economic lever that will go a long way in telling the story of 2026 market performance.

Let's walk through what we believe are the most important questions today for markets and investments:

Should we expect a renewed outbreak of military conflict following these fragile and tenuous ceasefire efforts?

While the outlook remains uncertain, it increasingly appears that neither Tehran nor Washington is seeking a return to full scale military confrontation. That said, important risks remain. The expanding U.S. naval presence in the region raises the likelihood of miscalculation, particularly in an environment where, historically, accidental encounters or limited skirmishes have had the potential to escalate unintentionally. As a result, overall risk levels remain elevated.

Separately, Israel continues to apply pressure and views its mission as incomplete — particularly with respect to Iranian backed proxies such as Hezbollah in southern Lebanon — and may seek to reassert military action to achieve its remaining objectives. An adjacent but important area of conflict for investors to continue to monitor.

Who is making the decisions in Iran today?

Decision making in Iran remains firmly concentrated within the Islamic Revolutionary Guard Corps (IRGC), which continues to exert decisive influence over both security policy and strategic negotiations.

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The IRGC has taken a consistently hardline stance toward engagement with the U.S., viewing concessions as strategically premature and politically destabilizing.

Despite the imposition of a U.S. naval blockade and the cumulative economic strain Iran is experiencing from extensive military damage, the regime has not fractured. Instead, it has doubled down, adopting an even more uncompromising posture. From Tehran's perspective, the failure of external pressure to trigger regime collapse reinforces its core strategic belief: that Iran can endure economic and social pain for longer than the U.S. and its allies are willing to pay the military and political price.

This confidence appears rooted in a long standing asymmetry in tolerance for disruption. Iranian leadership views time as an ally — expecting pressure on global energy markets, ruptures in allied political cohesion, and impatience in the West to build more quickly than internal dissent at home. As a result, the IRGC remains inclined to resist near term compromise, betting that a prolonged standoff ultimately strengthens its negotiating leverage rather than weakens it.

What role are the other Persian Gulf countries playing in this process?

Saudi Arabia, Oman, the United Arab Emirates (UAE), and Qatar share a clear and immediate strategic interest in preventing Iran from exerting undue control over the Strait of Hormuz. Ensuring the safe and uninterrupted passage of energy shipments and commercial vessels through this chokepoint is essential to protecting their economic and financial stability.

As a result, these Gulf countries are likely to play an important role in any regional or international coalition seeking a longer-term path toward de-escalation and settlement. Their involvement is driven not only by security concerns, but also by the need to restore confidence in the reliability of regional trade flows and energy infrastructure.

At the same time, signs of internal strain within the Gulf's regional cooperation framework are emerging. The UAE's announcement on April 28 of its intention to exit the Organization of the Petroleum Exporting Countries (OPEC) coalition highlights broader fractures and divergent national priorities. Rebuilding damaged energy infrastructure across the region will require substantial time and capital, and the latest conflict has further eroded trust among Middle Eastern powers whose cooperation is critical to long term stability.

Above all, these countries are seeking regional calm. The escalation of hostilities and the heightened risk of supply disruption have been deeply unsettling, reinforcing a shared preference for stability over prolonged confrontation. We believe, however, that the path to a durable political and security framework remains complex and uncertain.

What are the most plausible deal points for a U.S.-Iran agreement, and how soon can it come together?

A short term, tactical de-escalation could emerge relatively quickly. The simplest near term arrangement would involve Iran reopening the Strait of Hormuz in exchange for a partial curtailment of the U.S. naval blockade at the mouth of the Gulf of Oman. While such a deal could temper immediate geopolitical and energy market risks, it would almost certainly be insufficient as a durable framework for normalization.

A more sustainable agreement would need to address Iran's nuclear program alongside broader security and economic considerations. Several core components would likely anchor any longer term deal:

1. Uranium enrichment moratorium

A central issue would be an agreed upon duration for a moratorium on uranium enrichment. The U.S. has reportedly pushed for a long-term suspension — on the order of 20 years — while Iran has countered with a significantly shorter period, closer to five years. These positions appear less like deal breakers and

more like opening offers, suggesting room for compromise as negotiations progress, potentially via a graduated or renewable framework.

2. Disposition of existing 60% enriched uranium stockpiles

Any agreement would also need to address Iran's existing stockpile of uranium enriched to roughly 60%. Several models exist. One option would mirror elements of the 2015 Joint Comprehensive Plan of Action (JCPOA), or even Ukraine's early-1990s denuclearization after the fall of the Soviet Union, with enriched material transferred to an agreed-upon third country for secure storage. An alternative would involve down blending the material domestically to levels consistent with civilian, non-weapons use, under strict international oversight.

3. International verification and inspection regime

Credible verification would be essential. This would almost certainly require the return — or expansion — of independent international nuclear inspections to ensure enrichment activities remain below weapons grade levels and that covert facilities are not being operated outside the agreed framework.

4. Sanctions relief as an economic consideration

Finally, no deal is likely to hold without meaningful sanctions relief for Iran. In exchange for verifiable constraints on its nuclear program, Iran would seek phased relief from U.S. and allied sanctions, particularly those restricting energy exports, access to global financial systems, and frozen assets. The calibration and sequencing of this relief would be critical to ensuring compliance on both sides.

How large and significant is the oil disruption from the conflict and the strait closure?

The cumulative supply disruption from the conflict and partial Strait of Hormuz closure has now reached an estimated 600 million barrels, give or take, by early May. These are not merely delayed shipments — they represent shut in, damaged, or deferred barrels that are no longer flowing into end use, whether fuel tanks, storage facilities, power generation, or industrial demand. Floating storage and commercial buffers have already been heavily drawn down, leaving little remaining shock absorption in the system.

Absent a reopening of the strait within the next several weeks, the global oil market, in our view, is likely to enter a period of explicit demand rationing within the current quarter. Supply losses of this magnitude cannot be absorbed solely through inventories or price signaling. Rationing on the order of four million to five million barrels per day would be required within weeks to rebalance the system, with a typical 30-day lag before flow disruptions fully translate into end-market shortages.

We would expect the most acute stress to center on natural gas, as well as intermediate and medium sour crude barrels. Natural gas is important for making helium, which cools technology components and goes into fertilizers. Intermediate and heavy crude oil are critical inputs to the diesel and jet fuel supply chains, and for producing sulfuric acid, a key ingredient in refining copper. As a result, refined product shortages are likely to materialize before outright crude scarcity becomes visible to end consumers.

U.S. consumers, in our view, should anticipate product impacts to cascade in the following order:

- Petrochemicals and liquefied petroleum gas (LPG) — affecting home heating and cooking fuel availability
- Diesel — with knock-on effects on freight, agriculture, and industrial activity
- Jet fuel — directly constraining airline capacity and broader economic mobility

Initial impacts are most likely in import-dependent emerging markets, including Sri Lanka, Thailand, and Pakistan, before expanding into Western Europe (notably the UK and France) and eventually Australia. In parallel, policy responses, such as work-from-home mandates in the Pacific Rim, airline capacity caps, and emergency fuel-allocation frameworks are becoming increasingly probable.

The U.S. has some insulation from shortages, because U.S. production and imports via Canadian pipelines make roughly 85% of U.S. daily consumption. Only 2% comes from the Middle East. The larger problem is that crude oil is priced globally and prices are rising, even here. Elevated fuel costs, particularly heading into the summer driving season, would add to inflationary pressures, with important implications for interest-rate expectations. At the same time, affordability constraints for consumers and rising input costs for businesses would become more pronounced, increasing political pressure on the administration to take action to ease prices ahead of the midterm elections.

In short, without a near-term reopening of the Strait of Hormuz, the outlook shifts from price volatility to physical scarcity, forcing mainly overseas governments and markets alike to confront demand destruction as the primary adjustment mechanism.

What are some of the longer-term implications of the conflict and Strait of Hormuz closure?

The conflict and disruption to the Strait of Hormuz have exposed a reality that many so-called energy-independent countries have been reluctant to acknowledge — global energy supply chains remain far more fragile and interconnected than assumed. Strategic redundancy has diminished, buffers have thinned, and resilience has been overestimated.

Equally important is the time required to repair damage and restart supply chains. The liquid natural gas facility damage in Qatar and Iran could take as much as 20% of global supply offline for possibly years. These facilities represent complex, capital-intensive systems that will need to be rebuilt or repaired amid an already constrained environment. The damage to crude oil facilities is generally much less and could recover in days or weeks. However, there are still well over 700 vessels loitering in the vicinity of the Strait, waiting to load. Their cargoes then may take 2-3 months to reach their destinations and be offloaded around the world.

Any prolonged shut-in of Iranian oil wells is not benign. While short-term shut-ins can often be reversed with limited impact, extended shut-ins materially increase the risk of permanent production loss, particularly given Iran's reservoir geology, crude quality, and infrastructure constraints.

Those efforts will take place against a backdrop of elevated inflation and tight global engineering and construction capacity — conditions exacerbated by massive capital deployment into artificial intelligence, including data centers and power grids. Competition for skilled labor, equipment, and project financing will extend timelines and raise costs well beyond historical norms.

The net result is that the economic and market impacts of this crisis are likely to persist longer than in past oil shocks. Unlike prior episodes where brief supply disruptions were followed by relatively rapid normalization, this event introduces prolonged structural friction across production, processing, and distribution. The effects — on energy prices, industrial activity, and geopolitical risk premia — are unlikely to fade quickly.

In short, even if the immediate conflict de-escalates, we expect the aftershocks will remain with us for some time. Markets may be inclined to trade through the headline risk, but the physical and logistical realities suggest a longer-lasting adjustment period than investors and policymakers have come to expect.

Risk considerations

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.

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May 6, 2026

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Central Bank Digital Currencies – What investors should know

Key takeaways

- Central bank digital currencies (CBDCs) are digital forms of a country's official fiat currency (physical cash) issued directly by a central bank.
- Governments worldwide are actively exploring CBDCs, with much of the progress occurring outside the United States — most notably in China and several emerging markets.
- CBDCs have the potential to improve payment efficiency (which we think of as faster processing, smoother settlement and reduced operational frictions if adopted) — particularly in cross-border settlements through modernizing financial infrastructure and expanding financial inclusion to unbanked populations globally.
- At the same time, their development raises important questions related to privacy, financial stability, and governance, making the topic a central focus for policymakers and market participants alike.

Introduction

The exchange of value has evolved over centuries — from barter and commodity money to coins, paper currency, and electronically mediated payments. Each transformation has aimed to improve efficiency, security, and trust while supporting economic growth. Although modern payment systems are increasingly digital, they remain built on frameworks originally designed for physical cash and to occur between banks.

CBDCs represent a potential next step in this evolution. By offering a digital form of sovereign money issued and backed by the central bank, CBDCs seek to modernize payment infrastructure, improve cross border settlement, expand financial inclusion, and enhance the transmission of monetary and fiscal policy under certain design frameworks. While many countries have accelerated CBDC research and pilot programs, approaches vary significantly. The United States, in particular, has moved more cautiously due to privacy, governance, and financial stability concerns. Understanding the design, benefits, and risks of CBDCs is therefore essential to assessing their long-term implications for the financial system.

What Are CBDCs?

A CBDC is a digital form of a country's official fiat currency. Although the legal structures and technological implementations vary across jurisdictions, most retail-oriented CBDCs are issued and are exchangeable for a country's official fiat currency. As a result, they are designed to function as a digital equivalent of physical cash.

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Generally, holding a CBDC represents a direct claim on the central bank, just as holding physical paper currencies does today.

CBDCs differ fundamentally from cryptocurrencies, such as Bitcoin or Ethereum.¹ Most cryptocurrencies are decentralized and privately issued (not issued by a government or central bank). In contrast, CBDCs are centralized and operate within a country's regulated monetary system. They are issued by the central bank, governed by public institutions, and integrated into existing financial frameworks.

In addition to being digital representations of sovereign money, CBDCs can incorporate programmable features, allowing conditions such as expiration dates or spending restrictions to be embedded directly into the currency. These features would generally be designed to support policy objectives such as ensuring that public assistance funds are only spent on approved items like food and rent. They are also traceable, as transactions can be recorded using distributed ledger or similar technologies.² In summary, CBDCs are designed to integrate directly with the state's financial system, reflecting their role as a core component of modern monetary infrastructure rather than an alternative system operating alongside it.

CBDCs compared with existing digital money

While CBDCs are digital, they are distinct from the digital money already widely used today, such as bank account balances and electronic payments. For example, when individuals hold funds in a bank account, they are effectively holding a claim on that bank rather than on the state. And if an individual transfers money to someone else, while the electronic transfer is in process it is a liability of one (the paying) bank and an asset of the other (receiving) bank.

CBDCs differ in that the central bank creates digital equivalents of the national currency which are then distributed utilizing one of the different models shown in Table 2. In this sense, CBDCs are a digital version of physical cash rather than an evolution of private bank money, which has historically been the basis of electronic payments. Using the same example of holding funds in a bank account above, under a direct CBDC model (see Table 2), individuals are effectively holding a claim on the state rather than the bank. Although both systems facilitate electronic transactions, this distinction has meaningful implications for financial stability, payment resilience, and the role of intermediaries in the financial system.

Types of CBDCs

As central banks explore digital versions of sovereign currency, the conversation around CBDCs is increasingly focused on *design choices rather than definitions*. How a CBDC is structured — and who is permitted to use it — has important implications for payment efficiency, financial inclusion, privacy, and the role of commercial banks within the financial system.

Two dimensions are particularly relevant for investors and market participants. First is the *intended user*: some CBDC proposals are designed for everyday use by households and businesses, while others are limited to financial institutions and markets. Second is the *operating model*: CBDCs can be implemented with varying levels of involvement by central banks and commercial banks, which influences how closely a CBDC resembles today's financial system and how disruptive it could be during periods of economic stress.

1. For a complete introduction to Bitcoin and Ethereum please see Wells Fargo Investment Institute's report, "Bitcoin and Ethereum – What's the difference?" October 16, 2025.

2. Distributed ledger technology is a decentralized and digital system used to record transactions and data across multiple computers. For a complete introduction please see Wells Fargo Investment Institute's report, "Blockchain technology basics," November 13, 2025.

The tables below summarize these distinctions. Rather than signaling a single global model, they illustrate the range of approaches policymakers are considering — and the trade-offs embedded in each.

Retail versus wholesale CBDCs

Table 1. Applications of CBDCs

	Retail CBDC	Wholesale CBDC
Access	Public (individuals, households, businesses).	Licensed financial institutions. Not available to the general public.
Primary objectives	Designed for everyday use by the public. Can potentially promote financial inclusion, everyday payments, and government transfers via subsidies or welfare payments.	Faster, cheaper interbank and cross-border settlement.

Source: Wells Fargo Investment Institute. As of April 14, 2026.

Table 2: CBDC operating (design) models

	Direct	Hybrid	Intermediated (indirect)
Core model	Central bank retains full control by managing all accounts and transactions.	Central bank issues CBDC; intermediaries (banks) manage real time retail payments. The central bank, however, still retains records of all retail holdings.	Central banks provides only backend settlement, while intermediaries (banks) fully manage retail activity and records. This is most similar to the current system.
Public issuance	Central banks distribute CBDCs directly to the public.	Central banks distribute CBDCs to intermediaries, who then distribute to the public.	Central banks distribute CBDCs to intermediaries, such as banks, who then distribute to the public.
Claims	The public holds a direct claim on the central bank.	The public holds a direct claim on the central bank.	The public holds claims on the intermediaries’ (banks) CBDC holdings, which are backed by the intermediaries reserves with the central bank.
Role of banks	None.	Banks are more involved in the process and manage customer wallets, onboarding Know-Your-Customer (KYC), payments, and distribution.	Banks fully manage customer relationships, records of retail activity, and distributions of CBDCs.
Disintermediation risk*	High — potential for users to move savings out of traditional banks in favor of CBDCs.	Moderate.	Low — greater bank involvement helps preserve traditional financial stability while enabling digital innovation.

Source: Wells Fargo Investment Institute. As of April 14, 2026. Disintermediation risk source is “A prototype for two tier Central Bank Digital Currency (CBDC), BID, Oct, 2022. Know-Your-Customer (KYC): A regulatory process to verify a customer’s identity, assess risks, and prevent money laundering, fraud, or other illegal activities. *Bank disintermediation is the risk that customers bypass traditional banks for financial services in favor of non-traditional alternatives.

Potential benefits

A frequently cited benefit of CBDCs is their ability to promote financial inclusion. In regions where access to traditional banking services is limited, CBDCs distributed through mobile devices can provide a low-cost entry point into the formal financial system. Pilot programs in emerging market countries have demonstrated how CBDCs can be used for government disbursements in areas with minimal banking infrastructure.³

CBDCs may also enhance the effectiveness of monetary policy. In principle, central banks could deliver policy actions — such as targeted transfers or stimulus payments — directly to households and businesses. This could reduce the reliance on commercial banks as intermediaries and shorten the lag between policy decisions and their impact on the real economy.

Key use cases

Payment and cross border settlement modernization

Several central banks — particularly in Asia and the Middle East — are pursuing CBDCs to modernize cross border payments. The mBridge initiative connects central banks in China, Hong Kong, Thailand, the UAE, and Saudi Arabia, enabling direct settlement without relying on the SWIFT network.^{4, 5}

Unlike SWIFT transfers, which can take 2 – 5 days and incur fees of 5% – 10%, mBridge aims to reduce settlement time and costs through shared digital payment rails. Though in its developing stage as of January 2026, the platform had processed more than \$55.5 billion in transactions, with the digital yuan accounting for the majority of volume.⁶ This remains a tiny fraction compared to SWIFT's \$300 billion in daily transactions. Additionally, some countries also view alternative settlement infrastructures as a way to reduce dependency on existing payment networks, particularly in an increasingly fragmented global financial system. For example, if two countries accept each other's CBDC's as forms of payment, they may be able to continue transacting with one another — even if sanctions are imposed by other countries that would otherwise limit them from using the traditional SWIFT payment system.

Global landscape and country examples

As of 2025, more than 134 countries — representing approximately 98% of global gross domestic product — are engaged in some form of research, experimentation, or early development related to CBDCs,⁷ as most projects remain in exploratory or pilot phases. One of the most advanced examples is China's digital yuan (e CNY), which represents the largest CBDC pilot globally. Although adoption has been slower than initially anticipated, recent initiatives — including interest bearing features and expanded participation by financial institutions — aim to increase usage.⁸ In contrast, the United States has adopted a more cautious approach. Legislative developments, including the Anti-CBDC Surveillance State Act, reflect concerns about privacy and government overreach. As a result, U.S. efforts are focused primarily on wholesale CBDC research and cross border settlement initiatives.⁹

The European Central Bank continues to advance its digital euro project, emphasizing privacy protections and holding limits to mitigate financial stability risks.¹⁰ The Bank of England is similarly proceeding cautiously,

3. "RBI's offline digital rupee is here: Pay with e-rupee even without interest," IBEF, October 14, 2025.
4. "What to watch as China prepares its digital yuan for prime time," Atlantic Council, January 15, 2026.
5. "Project mBridge: connecting economies through CBDC," BIS, October 26, 2022.
6. "China-led cross-border digital currency platform sees surge," Reuters, January 16, 2026.
7. Central Bank Digital Currency Tracker. Atlantic Council, July 2025.
8. "What to watch as China prepares its digital yuan for prime time," Atlantic Council, January 15, 2026.
9. "What does Trump's CBDC ban mean for Digital Payments?" Juniper Research, February 2025.
10. "Progress on the digital Euro," European Central Bank, data accessed as of April 14, 2026.

evaluating a digital pound that would complement rather than replace existing payment methods.¹¹ In emerging markets, several countries — including Nigeria, The Bahamas, and Jamaica — have already launched retail CBDCs, primarily to support financial inclusion and reduce cash handling costs.¹²

Risks and challenges

Despite their potential benefits, CBDCs pose several risks. One of the most prominent concerns relates to financial surveillance and privacy.¹³ Unlike physical cash, CBDCs can generate detailed transaction records. Without robust legal and technical safeguards, this information could be used in ways that extend beyond financial crime prevention, potentially undermining individual privacy and public trust.

Another challenge comes from the **programmable nature** of CBDCs. While features like spending limits or expiration dates can help governments manage economic activity and be effective policy tools, they could have the potential to restrict how people use their own money. This raises concerns about **personal financial freedom** and highlights the need for clear rules and strong oversight.

CBDCs may also affect the **banking system**. If people choose to keep their money as CBDCs instead of depositing it in commercial banks, banks may have less money available to lend. This problem could become more serious during times of financial crisis, when CBDCs might seem safer than bank deposits.

Finally, there are **legal issues** to consider. In many countries, laws related to CBDCs — such as who is responsible for mistakes, whether CBDCs count as legal tender, and how transaction data should be protected — are still unclear. Addressing these legal and regulatory challenges is essential before CBDCs can be widely adopted.

The future of CBDCs

Interest in CBDCs continues to build globally as policymakers explore how money and payments may evolve in an increasingly digital economy. While most CBDCs are still in pilot or early development stages, ongoing experimentation is helping central banks better understand their potential role over time. Looking ahead, broader adoption will likely depend on coordination across countries, clearer policy frameworks, and thoughtful system design that works alongside existing financial institutions. Collaboration through international bodies such as the Bank for International Settlements, the International Monetary Fund, and the G20 could play an important role in shaping common standards and promoting cross border compatibility. If these efforts continue to progress, we believe CBDCs may gradually become a meaningful complement to today's payment systems and financial infrastructure.

11. "The digital pound," Bank of England, data accessed as of April 14, 2026.

12. "Central Bank Digital Currency Tracker," Atlantic Council, July 2025.

13. "Central Bank Digital Currency Data Use and Privacy Protection," IMF, April 2024.

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