

WELLS FARGO
Investment Institute

June 2025

2025 Midyear Outlook

Opportunities amid uneven terrain



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Opportunities amid uneven terrain



A stylized, handwritten signature of Darrell L. Cronk in dark ink.

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“The stock market is a device for transferring money from the impatient to the patient.”

— Warren Buffett

Our 2025 Outlook report foresaw a new chapter for the U.S. economy, including policy changes — but not to this degree. The largest tariff increases since the 1930s are rapidly reshaping global trade and are likely to spark inflation and slow spending. Tariff negotiations are ongoing, but we do expect some significant tariffs still in place through 2026. Meanwhile, Congress is hammering out a budget that should extend the 2017 tax cuts and may add some new ones. Much depends on policy negotiations that remain fluid.

Markets dislike uncertainties, but sometimes the worrying gets overdone. Even as investor sentiment has weakened sharply this year so far, household incomes after inflation are growing, and monthly job creation has slowed but is near its 15-year average. Additionally, first-quarter corporate earnings delivered robust growth and largely healthy balance sheets. Deregulation and lower oil prices add positive momentum. A lot still has to be figured out, but the economy has a healthy pulse. Sentiment has focused mostly on the downside, but we believe wise investors also will weigh the positives.

Part of that balancing is to recognize that tariffs are taxes, and households and businesses routinely adjust to tax changes. And not all transactions are subject to tariffs. The Commerce Department says 52% of goods purchases are entirely of domestic content, and U.S. businesses have had considerable experience in diversifying their overseas supply chains since 2018. And 70% of consumer spending is on services, which we believe will support hiring and wages. Key for markets during the next 18 months will be how effectively the policy positives (deregulation, tax cuts, and lower short-term borrowing costs) offset the policy negatives.

Portfolio returns often take two steps forward and one back. Markets enjoyed extraordinarily strong returns in 2023 and 2024 with subdued volatility before the first half of 2025 delivered some of the most stunning and rapid geopolitical policy changes since the mid-1940s. Markets are adjusting in real time to these changes, as will we.

So, our midyear report is a chance for us, and the investors who rely on us, to account for all the interconnected factors that can drive the economy and capital markets. This edition highlights risks but also has a constructive outlook. And we will keep eyes forward for the potential opportunities that often appear in uncertain times. We have been here before, and we will be again. Recall, it is often uncertainty and volatility that create the best opportunities for investors. We expect this time will be no different.

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

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

Tariffs pressure growth in 2025

KEY TAKEAWAYS

- We expect tariffs to pressure U.S. economic growth in the coming months before more positive forces kick in late in 2025 from tax cuts, lower short-term interest rates, and improved purchasing power from oil-price declines and solid real (inflation-adjusted) income growth.
- We think the shift toward more protectionist trade policies will have a more negative impact on trade-reliant economies like China and the eurozone, which are already burdened by underlying structural challenges.

WHAT IT MAY MEAN FOR INVESTORS

- We think 2025 offers long-term investors an opportunity for increased exposure to high-quality U.S. assets, which we see as well-positioned to outperform developed- and emerging-market assets.

Trade policy has become the defining feature in our 2025 economic outlook, upending prospects for another year of economic growth above 2.0%, as in 2024. However, both actual and threatened U.S. tariff increases (on allies and adversaries alike) have been unexpectedly aggressive and, in our view, should be viewed as a substantial tax increase. Tariffs are taxes imposed by a country's government on imported goods, typically charged to importers as a percentage of a product's value to make it less competitive with domestically produced goods. The added cost from higher tariffs, like any tax increase, discourages spending on the good and may limit business investment to expand supply.

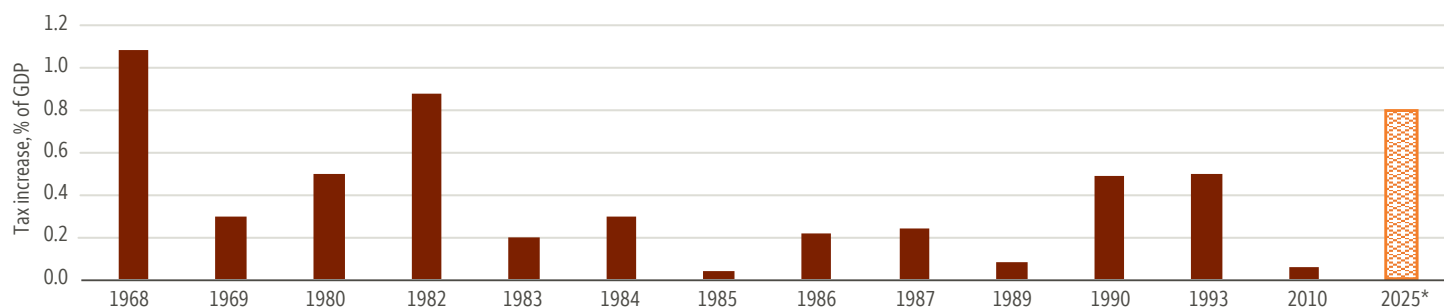
The average effective U.S. tariff rate of about 15% (following the U.S.-China bilateral truce during the early part of May) is the highest since the early 1900s and more than five times its reading at the start of 2025.² As a share of GDP, the tariff increase is among the top three tax increases of the past 60 years, as shown in the chart on the following page.

Remaining bilateral negotiations to reduce import levies are focusing on reciprocal tariffs over the 10% universal base rate that went into effect against all trading partners on April 5. We believe that 10% rate, plus sector-specific tariffs (like those on steel, aluminum, and autos), would leave the average levy high enough to lower full-year U.S. economic growth to a subpar 1.0% in 2025, even in the unlikely event that all the reciprocal tariffs are negotiated away.

However, we also believe key supports will allow the U.S. economy to avoid a tariff-induced recession and stage a mild recovery from late 2025 through 2026. In our view, unusually subdued, late-cycle inflation will allow the economy to skirt a recession by limiting financial-market stress, reining in long-term rates, and boosting real incomes. We expect the economy to regain momentum heading into 2026 as a window of lower inflation (tied to a downshift in midyear economic activity) supports consumer purchasing power and prompts lower short-term interest rates.

2. "State of U.S. Tariffs: May 12, 2025," Yale Budget Lab, May 12, 2025.

Tariff “tax hike” among top three of past 60 years



Sources: Wells Fargo Investment Institute based on U.S. Treasury estimates for historical tax increase data, 1968–2010. *Patterned bar indicates forecast for 2025 tariffs based on estimates from Strategas Securities LLC, as of May 13, 2025. GDP = gross domestic product.

These economic tailwinds should be reinforced by growth-supportive tax cuts, the lift to upper-income spending power from renewed gains in the stock market, and gathering support from productivity-enhancing deregulation and manufacturing reshoring.

We also expect small businesses (which account for nearly 46% of U.S. private-sector employment³) to benefit from deregulation by late 2025, adding to ongoing easing of bank-credit conditions since 2022.⁴ In our view, lower short-term costs tied to likely Federal Reserve (Fed) interest-rate cuts and reduced inflation pressures will help stabilize other credit-sensitive sectors. We expect economic sluggishness into the fall to lift the unemployment rate, though tighter immigration controls and increased retirements tied to an aging workforce should limit the rise in the jobless rate as the labor force remains tight overall.

Tariffs put upward pressure on inflation

We anticipate Consumer Price Index (CPI) inflation will rise 3.5% year over year in December 2025. In our view, tariffs will add upward pressure on inflation, primarily through their impact on core goods (excluding food and energy). Even if all reciprocal tariff premiums are ultimately rescinded, an outsized U.S. tariff rate on China (along with that country’s own retaliatory measures) will impact the U.S. economy as China accounts for roughly 15% of U.S. imports.⁵

Beyond tariffs, we expect inflation to move higher by year-end as a reacceleration in U.S. economic activity combines with idiosyncratic forces like firmer rental costs

(nearly one-third of the CPI) and sticky insurance and medical-care costs. We do believe that lower fuel costs will prevent a more pronounced increase in this year’s CPI inflation rate.

Global economies and currencies relatively more exposed to tariffs

We view the U.S. economy as better positioned to weather tariffs than economies abroad. The U.S. boasts structural advantages like a vibrant technology sector, less reliance on exports, and comparatively stronger fiscal stimulus. In contrast, structural factors are largely economic headwinds for China, Europe, and Japan. All remain challenged by declining populations and a heavier regulatory burden than the United States, and divergent fiscal health across countries underscores poor economic integration. Efforts by China to shift to consumer-led growth from dependence on exports and investment spending should limit the country’s growth recovery through 2026.

We expect the U.S. dollar to rebound in sync with strengthening U.S. economic and interest-rate advantages through the balance of 2025 and into 2026. Higher tariffs should be a negative for trade-sensitive emerging-market currencies, particularly China as a key target for the Trump administration’s tariff policy. We also view dollar strength weighing indirectly on exchange rates by creating a headwind for commodity prices, most of which are priced in U.S. dollars.

3. Based on U.S. Small Business Administration data as of November 2024.

4. Based on Federal Reserve data as of the first quarter of 2025.

5. Based on U.S. Census Bureau data as of April 23, 2025.

Economy to support equities through 2026

KEY TAKEAWAYS

- Significantly surpassing the equity-market highs reached early this year has likely been delayed by the tariff-related hit to consumer and business sentiment along with the imminent economic slowdown that we expect.
- Without a recession, we believe the risk of further equity-market downside — beyond lows reached in April — is likely limited while upside reward potential is significant by year-end 2026.

WHAT IT MAY MEAN FOR INVESTORS

- We view further periods of volatility as an opportunity to lean into equities to position for the gains we expect through 2026.

FAVORED ASSET CLASSES

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

FAVORED SECTORS

- Communication Services, Energy, Financials, Information Technology, Utilities

FAVORED SUB-SECTORS

- Communication Services: Interactive Home Entertainment, Interactive Media & Services
- Energy: Integrated Oil, Midstream Energy
- Financials: Capital Markets, Diversified Banks, Insurance Brokers, Multi-Sector Holdings, Property & Casualty Insurance, Transaction & Payment Processing Services
- Information Technology: Semiconductors, Semiconductor Materials & Equipment, Software
- Utilities: Electric Utilities, Independent Power & Renewable Electricity Producers, Multi-Utilities

2025: Tariff trouble

Tariffs as a cost headwind have the potential to hit top-line sales as consumers purchase fewer goods and services, and tariffs can squeeze profit margins as companies attempt to absorb some of that burden. But the drag from tariffs does not end there. With trade-policy negotiations ongoing,

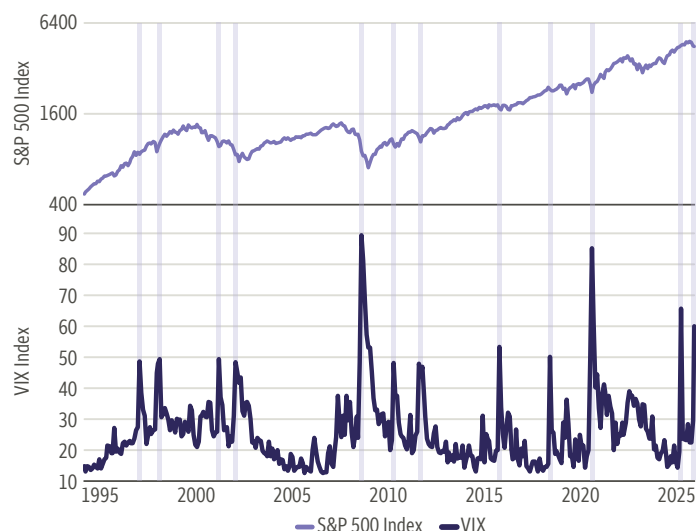
companies' ability to allocate capital toward growth projects is impaired. C-suites are less likely to approve a project if the return after costs is unknowable, and on their first-quarter earnings calls some companies paused projects due to tariff uncertainty. In the near term, when we expect trade-policy uncertainty to be highest, volatility is likely to be elevated and returns muted.

However, we expect more trade deals to provide some additional clarity and reduce corporate, consumer, and investor anxiety. Deregulation, tax cuts, and lower short-term borrowing rates should further bolster earnings. We expect that modest earnings growth and rebounding price/earnings (P/E) valuations will drive attractive returns later this year and through 2026.

2026: Reaching new highs

Historically, increases in market volatility, such as the recent one, have occurred often near market bottoms. Looking forward 18 months suggests a significant equity market rebound. As the chart below shows, of the 10 highlighted periods prior to the two in the past year where volatility reached high levels (as represented by intraday VIX Index⁶ values crossing above 40), the median 18-month forward S&P 500 Index total return was 30%. The cause of each past volatility spike has been unique, but they share common characteristics. In real time, the uncertainties can feel so large that it is difficult to look past them, but also in each case households and businesses adjusted, and generally, returns soon followed. In sum, the new tariffs are significant, and uncertainty may persist for some months to come. However, we would follow the lesson of history and lean into equities.

Volatility spikes generally occur near stock market bottoms



Sources: Wells Fargo Investment Institute and Bloomberg. Monthly data, January 1995–April 2025. Highlighted areas reflect periods in which the VIX Index crossed above 40.

Top panel is in log scale. An index is unmanaged and not available for direct investment.

Past performance is no guarantee of future results.

6. VIX Index = Chicago Board Options Exchange Volatility Index.

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

Lean into the recovery

Absent a recession, the risk of further downside below recent lows is likely limited while upside reward potential is significant. Our preference remains to allocate based on quality, and we favor U.S. Large Cap Equities and U.S. Mid Cap Equities over U.S. Small Cap Equities. We also favor Developed Market (DM) ex-U.S. Equities over Emerging Market (EM) Equities.

We ultimately see upside potential in U.S. equities through 2026 but are focusing on valuations while near-term market action is volatile. If risk appetite weakens and prices fall, we favor reallocating from our unfavorably rated defensive sector (Consumer Staples) and from some neutral-rated sectors (Health Care and Real Estate) to our favorable cyclical sectors (Energy, Financials, Communication Services, and Information Technology). By contrast, during risk-on rallies we prefer to reallocate from sectors we see as overvalued, such as the cyclically-oriented Consumer Discretionary sector, to a more defensive sector, Utilities, which we see as more favorably valued.

International: Stay up in quality

When tariff-related volatility and U.S. economic concerns hit, DM ex-U.S. and EM equities held up better than U.S. markets, which we believe were priced by mid-February for greatness, if not for perfection.

Looking ahead, we believe the international economies all face significant structural issues — including low productivity, high regulation, high debt levels, energy insecurity, and declining populations. Trade frictions add a new challenge. Additionally, international equities rarely sustain outperformance against U.S. equities, unless the U.S. dollar is trending lower. But our view is for a resilient dollar through 2026.

Developed markets have the benefit of a more stable and predictable regulatory environment while news of increased fiscal spending is likely to remain a tailwind for investor opinion and asset-class returns. Our preference for DM ex-U.S. Equities reflects these advantages.

Equity sub-sectors: Go shopping for “offensive defensemen”

We lean toward quality cyclical and growth-oriented equity sectors and individual stocks, but there is nuance here. We see “offensive defensemen” as well-positioned in the current environment. These are companies that boast solid defensive characteristics — strong profit margins, limited balance-sheet leverage, and high earnings stability. They also have the size and earnings potential capable of outperforming (“playing offense”) through choppy economic periods that put smaller peers under earnings pressure.

We believe that the Information Technology sector offers a wide array of investment opportunities that fit this description, even outside of the three \$1-trillion-plus market-capitalization stocks that receive the most attention. Vertical software companies operate with sticky customer relationships, cybersecurity software vendors, niche electronic-equipment suppliers, and consulting firms. Companies that operate in these areas are highly cash-generative and provide essential services and products to a wide variety of customer bases. Many have exposure to secular themes, including the monetization of artificial intelligence (AI) and the ongoing modernization of corporate technology platforms.

A few specific sub-sectors also have defensive and offensive traits. Within Financials, Transaction & Payment Processing Services, particularly large card networks, stand out. The largest companies in this sub-sector possess some of the highest margins and cash-flow generation. Many also have de minimis net debt as well as revenues that correlate strongly with the growth in consumer spending and the ongoing digitization of financial transactions. We expect these traits to continue to drive earnings. What’s more, these companies should see limited impacts from tariffs, both directly and indirectly. In Communication Services, Interactive Media & Services (social media and search engines) also fits the bill. The leading companies here are dominant forces in their end markets, produce strong cash flows, and are tethered to continued growth in digital advertising and cloud computing.

Within Energy and Utilities, Midstream Energy, Independent Power & Renewable Electricity Producers, and Electric Utilities are also areas we believe can benefit from strong fundamental positioning while leveraging secular growth in power demand. The leaders in these industries own and operate some of the most difficult-to-replicate assets on the planet, including long interstate pipelines and nuclear power plants. These companies do not have meaningful direct exposure to commodity prices, but rather, benefit from the long-term growth in energy demand from data centers, electrification, and reshoring of specific industries.

Lastly, we also point to Commercial & Professional Services within Industrials as a strong option for allocation in the present environment. Collecting trash, controlling for pests, washing uniforms, processing payroll, and distributing proxies to investors may not seem like exciting business lines, and they can often be fragmented industries. However, the leading players have historically been very strong operators and possess much greater resources than smaller peers, which often operate only in specific regions or industries. We are attracted to the fact that the profit streams are highly defensible, and also to the fact these companies have historically benefited from environments of stronger nominal growth.

We believe this group offers a fine summary of what we are trying to convey. We prefer to stay invested in the core of the U.S. equity market where a wide variety of fundamentally sound companies potentially offers a strong long-term track record of American corporate ingenuity while not necessarily requiring an investor to know how to time aggressive or defensive strategies during a period of elevated uncertainty. The bottom line is that we prefer companies that have the potential to compound their capital over the long term. We think they can be found in many expected, and often unexpected, corners of the market.

Equity sub-sector preferences

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

Source: Wells Fargo Investment Institute; favored sub-sectors by Global Securities Research and favored sectors by Global Investment Strategy. As of June 10, 2025.

Policy changes heighten bond volatility

KEY TAKEAWAYS

- We expect the Fed to calibrate monetary policy more reactively based on how tariffs ultimately impact inflation, labor markets, and the overall economy.
- We prefer a selective focus on issuers with strong business profiles that can manage a dynamic and uncertain environment.

WHAT IT MAY MEAN FOR INVESTORS

- Ultimately, we see an opportunity for fixed-income investors to remain active and implement defensive and growth-oriented strategies concurrently.

FAVORED SECTORS

- Investment Grade (IG) Credit
- Securitized Securities
- U.S. Municipal Bonds

FAVORED SUB-SECTORS

- IG Credit: Corporate Bonds
- Securitized Securities: Residential Mortgage-Backed Securities and Asset-Backed Securities
- U.S. Municipal Bonds: General Obligation Bonds and Essential Service Revenue Bonds

Tariffs create short-term inflation pressures, limit imports, and thereby reduce the supply of dollars for international investors to invest in the U.S. Regarding inflation impacts, we now expect the Fed to take a more reactive approach, calibrating monetary policy as a function of how tariffs end up affecting inflation, labor markets, and the economy overall. In our view, the Fed has some leeway to cut policy rates. Our base scenario implies two Fed rate cuts between now and year-end 2026.

We expect the bond market to remain sensitive to policy announcements and economic developments, especially around the trajectory of inflation and global demand for U.S. fixed-income securities. We also expect bond investors to pay close attention to congressional budget negotiations, mainly for a sense of whether federal-budget deficits will increase. Yes, the current fixed-income landscape is challenging, and the chart

below shows sharp movements in yields between 3- and 10-year U.S. Treasury notes but also that the 30-year U.S. Treasury bond yield has largely remained in a range after the tariff announcements began on February 2, 2025. Rather, that yield has traded in a range that includes pre-tariff and post-tariff announcement dates. If domestic or international investors were abandoning long-dated Treasury bonds, we would expect post-tariff 30-year yields to diverge much higher than pre-tariff yields after February 2.

Consequently, we would not abandon long-term bonds altogether but would adopt a more defensive posture to the long- as well as short-term maturities. Investors may not be exiting long-term bonds, but tariff policies and U.S. federal-budget negotiations could still create volatility in yields and prices. Meanwhile, short-term securities may offer less attractive yields as the Fed cuts policy rates further.

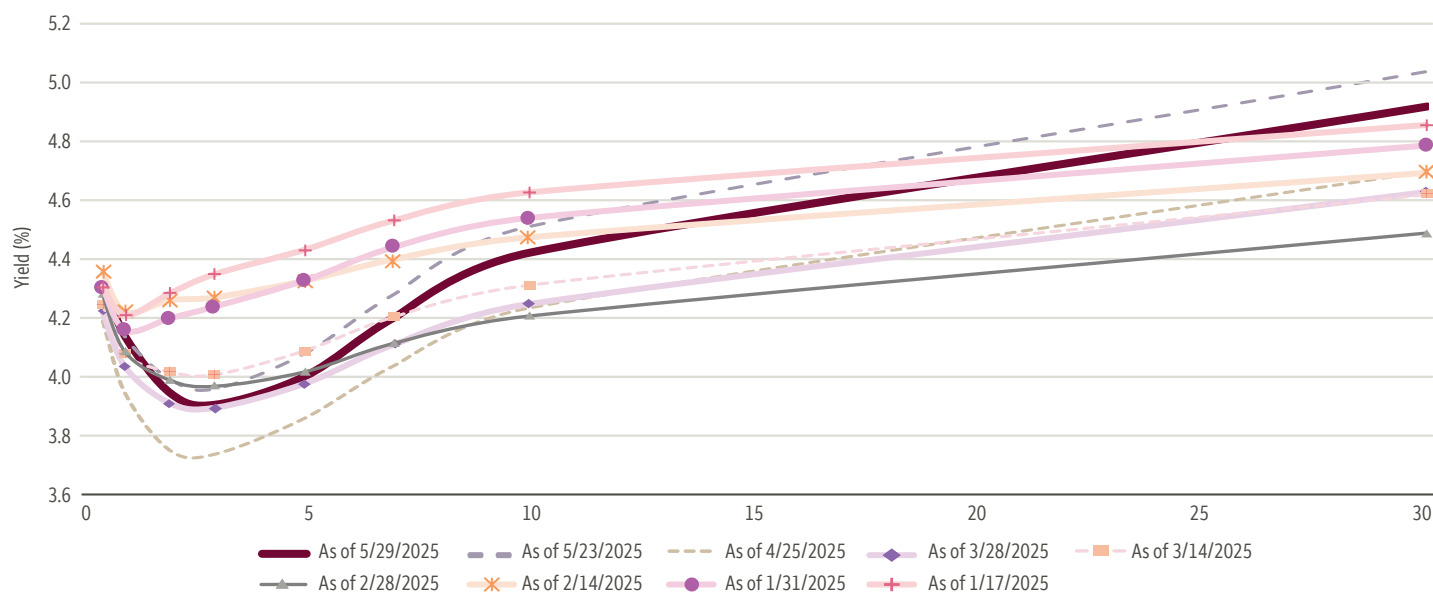
We see the most attractive tradeoff between yield and interest-rate risk in U.S. Intermediate Term Taxable Fixed Income. Also, we continue to favor exposure to

investment-grade credit risk, particularly in high-quality investment-grade corporate bonds and mortgage-backed and asset-backed securities, which we expect will continue to provide attractive income opportunities.

Three factors drive our outlook for modestly higher U.S. Treasury yields through 2026:

- 1. Persistent inflation:** One-year inflation expectations moving higher could pressure yields upwards as investors demand higher compensation.
- 2. Fiscal expansion:** The proposed tariffs, tax cuts, and rising federal deficits could increase Treasury issuance, pushing yields higher to attract buyers. The term premium — the extra yield investors require to hold long-term Treasuries — has already been rising.
- 3. Global factors:** Reduced foreign demand for U.S. Treasuries amid trade tensions could exacerbate yield increases, though domestic demand or even Fed intervention may offset some pressure.

Fixed-income markets likely to remain volatile into 2026



Sources: Wells Fargo Investment Institute and Bloomberg. Data as of May 29, 2025. Treasury yields represented by yields of current U.S. Treasury bills, notes, and bonds ranging from 6 months to 30 years in maturity at given dates. **Past performance is no guarantee of future results.**

Opportunities and challenges for global bonds

A continuation of European Central Bank and Bank of Japan policy normalization should lower yields gradually. Declining yields are positive for returns. However, the dollar appreciation we expect toward year-end should then undermine expected currency returns on unhedged international DM ex-U.S. Fixed Income. Taking the balance of these two factors together, we retain our neutral rating on DM ex-U.S. Fixed Income.

Several crosscurrents leave our outlook neutral on EM Fixed Income. Some of these countries have high real yields, falling inflation, and proactive central banks. Furthermore, a better outlook for commodities could help diminish credit risk. However, U.S. policy risks around tariffs and the potential for the U.S. dollar to appreciate against EM currencies remain real threats.

Amid shifting trade winds, credit selection is paramount

Investment-grade corporate credit metrics have fallen in line with long-term averages, leaving less cushion to navigate a downturn than previous years. Interest coverage among BBB issuers has now fallen slightly below average despite strong 2024 earnings growth. Aggressive debt-funded mergers and acquisitions and generous shareholder returns have been delayed by economic and trade-policy uncertainty. Furthermore, some issuers could see longer-term credit pressure from increasing capital intensity and reduced profitability, especially in industries exposed to a changing trade and regulatory environment.

High-yield credit metrics have remained relatively strong despite higher funding costs, because most debt issued during the coronavirus pandemic has been refinanced. However, caution is warranted where issuers are impacted by changing policies, rising costs overall, and slowing demand. Defaults may remain low through the remainder of the year, but deterioration in lower-quality issuers could pressure valuations. We favor selectivity and a focus on issuers with strong business profiles that can manage a dynamic and uncertain environment.

Consider municipal bonds (munis)

During the second quarter, we upgraded our U.S. Municipal Bonds guidance to favorable from neutral due to attractive relative value, anticipated summer reinvestment demand, and bipartisan support for municipal-bond tax exemption, which we believe Congress will maintain. We acknowledge an ongoing risk to the tax exemption for private-activity bonds and other non-municipal borrowers but expect the exemption for existing tax-exempt municipal bonds will continue. Nevertheless, market speculation about the future of this exemption leads us to expect muni issuance to grow above its 10-year average of \$390 billion.

Muni credit quality has remained strong. However, credit pressure may emerge in some sub-sectors of the muni market due to federal funding cuts and the continued drawdown of stimulus funds. For investors in higher effective tax brackets, municipal securities remain relevant and an important part of fixed-income positioning because of the tax advantages and superior credit quality that they offer relative to other areas of fixed income. Additional performance support during the remainder of 2025 may arise from a potential risk-off environment.

Fixed income | Sector and sub-sector preferences

SECTORS	SUB-SECTORS	
	FAVORABLE	UNFAVORABLE
Investment-Grade (IG) Credit (favorable)	IG corporate bonds in Telecom, Financials, Utilities	IG corporate bonds in Consumer Discretionary, Industrials
Securitized (favorable)	Residential Mortgage-Backed Securities, Asset-Backed Securities	
U.S. Municipal Bonds (favorable)	General Obligation (with a preference for local bonds), Essential Service Revenue	Niche private higher-education institutions and smaller health-care providers

Sources: Wells Fargo Investment Institute — Global Investment Strategy and Global Securities Research as of June 10, 2025.

Modest commodity recovery into 2026

KEY TAKEAWAYS

- We believe that material commodity price corrections have created attractive opportunities to position for an improved economic environment later this year and into 2026.
- We expect improved U.S. economic conditions later in 2025 to drive demand growth for commodities, especially areas that are more cyclically sensitive.

WHAT IT MAY MEAN FOR INVESTORS

- We prefer investors rotate toward cyclical sectors that could benefit from an improving macro environment such as Energy or Precious Metals.

FAVORED ASSET CLASS

- Commodities

FAVORED SECTORS

- Energy
- Precious Metals

FAVORED SUB-SECTORS

- Public Real Estate: Data Center REITs, Industrial REITs, Self-Storage REITs, Telecommunications REITs

Geopolitics could drive gold prices higher

We believe economic uncertainties and geopolitical tensions will continue to drive ongoing gold purchases by private investors and global central banks well into 2026 (central banks alone now account for 21% of global gold demand).⁷ Lower short-term U.S. interest rates and only a mild U.S. dollar rebound should reinforce price uptrends in precious metals. However, we note that the investor optimism about precious-metals gains has reached levels that historically accompany sharp pullbacks. We favor patience to buy on dips in price.

Cheap crude oil provides attractive energy opportunities

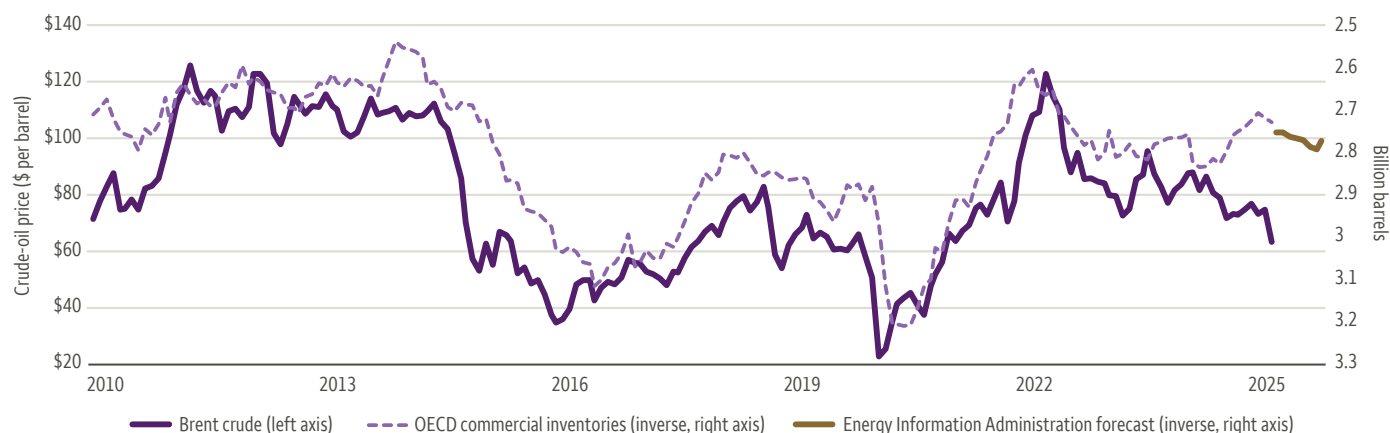
The crude-oil outlook has been clouded by uncertainties over global demand, the unwinding of OPEC+⁸ production cuts, and the potential for an Iranian nuclear deal to ease export sanctions. We believe these headwinds will build crude-oil inventories modestly by year-end (see chart on the next page). However, uncertainties around U.S. drilling costs from tariffs, and weak pricing near break-even levels, could limit U.S. production and price downside. We anticipate moderately stronger economic conditions to drive modest returns from current prices.

7. Based on data from World Gold Council. Four-quarter average of central bank purchases through first-quarter 2025.

8. The Organization of Petroleum Exporting Countries and its allies.

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

Ample crude-oil supply could lead to moderate inventory buildups



Sources: Wells Fargo Investment Institute, Bloomberg, and Energy Information Administration (EIA). Monthly data, January 2010–April 2025; EIA forecast data from May 2025–December 2025. OECD = Organization for Economic Co-operation and Development. **Past performance is no guarantee of future results.**

Industrial metals: Looking through the noise of tariffs

We view tariffs and the resulting economic slowdown as negatives for industrial metals in the coming months. However, the economic recovery that we expect should spark new demand. Moreover, copper has been in chronic short supply, and market prices should benefit over the longer term from spending on green energy and infrastructure. We remain neutral on the Industrial Metals sector for now.

Agriculture providing stability to commodity performance

Global supplies remain sizeable. Another negative is that retaliatory tariffs against the U.S. may restrain U.S. overseas sales, although the recent U.S.-China truce is an encouraging sign. On the positive side, the U.S. Department of Agriculture projects crop rotations that may firm prices of some grains. And we do see value in the sector's defensive nature during times of broader investment return volatility. We remain neutral on the Agriculture sector.

Finding value in equity REITs

Two main factors roughly balance in our neutral guidance on the Private Real Estate sector. The Fed rate cuts we expect should reduce short-term borrowing costs and price equity more attractively. By contrast, the slower economy we expect in the near term should weigh on demand until a recovery gains momentum late in the year. Finally, even with this neutral rating, we note that REITs can be an attractive defensive sector while market volatility remains elevated.

Over the long term, our favorably rated REIT sub-sectors seem well positioned to capitalize on several long-term trends, which include increased demand for data-center usage driven by AI; the continued rollout of fifth-generation wireless network technology; and continued growth in e-commerce sales volume. Additionally, we believe self-storage REITs are positioned to potentially benefit from their relatively defensive characteristics.

Public Real Estate sector and sub-sector preferences

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

Sources: Wells Fargo Investment Institute — Global Investment Strategy and Global Securities Research as of June 10, 2025.

Market dislocations create potential opportunities

KEY TAKEAWAYS

- Qualified investors who add alternative strategies to a portfolio of traditional stocks and bonds may build portfolios resilient to periods of elevated market volatility and may capitalize on periods of market dislocation.
- We favor increasing exposure to flexible strategies that have historically participated in upward-trending markets much more than they have done in declining markets.

WHAT IT MAY MEAN FOR INVESTORS

- If economic growth rebounds and policy uncertainty fades as we expect, we favor allocating to strategies that we anticipate can adapt to changing markets such as Equity Hedge – Directional, Relative Value – Long/Short Credit, and Macro – Discretionary.

FAVORED HEDGE FUND STRATEGIES AND SUB-STRATEGIES

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

FAVORED PRIVATE CAPITAL STRATEGIES AND SUB-STRATEGIES

- Private Debt: Distressed/Special Situations
- Private Equity: Small/Mid Cap Buyout and Growth Equity

Building resilience

Alternative investments may enhance a qualified investor's ability to navigate volatile markets. We expect that the flexibility of these investment managers to hedge against unintended risks may allow them to operate either with or against short-term market sentiment.

In an effort to build a more resilient portfolio, we favor increasing exposure to Equity Hedge – Directional and Relative Value – Long/Short Credit. We believe these strategies should generally participate in upward-trending markets yet seek to limit their exposure in declining markets. Over time, hedge funds have captured 49% of the performance in positive markets while they have limited their participation in downward-trending markets to a mere 21% of the index returns.⁹ We also favor Macro – Discretionary strategies to navigate up- and down-trending markets in a way that may hedge the geopolitical risks and rapidly shifting policy twists.

We have also maintained our favorable guidance on Event Driven – Distressed Credit strategies. Many lower-quality, overleveraged small and midsize businesses have continued to struggle under the burden of higher-for-longer interest rates. Furthermore, we expect that slower economic growth, higher-than-average inflation, and potentially lower profitability due to tariffs in 2025 will continue to pressure many business fundamentals that have already deteriorated at some firms. Distressed Credit strategies seek to capitalize on these market dislocations and may perform well in challenging environments and function as a counterbalance to traditional equity and fixed-income portfolios.

Private market views

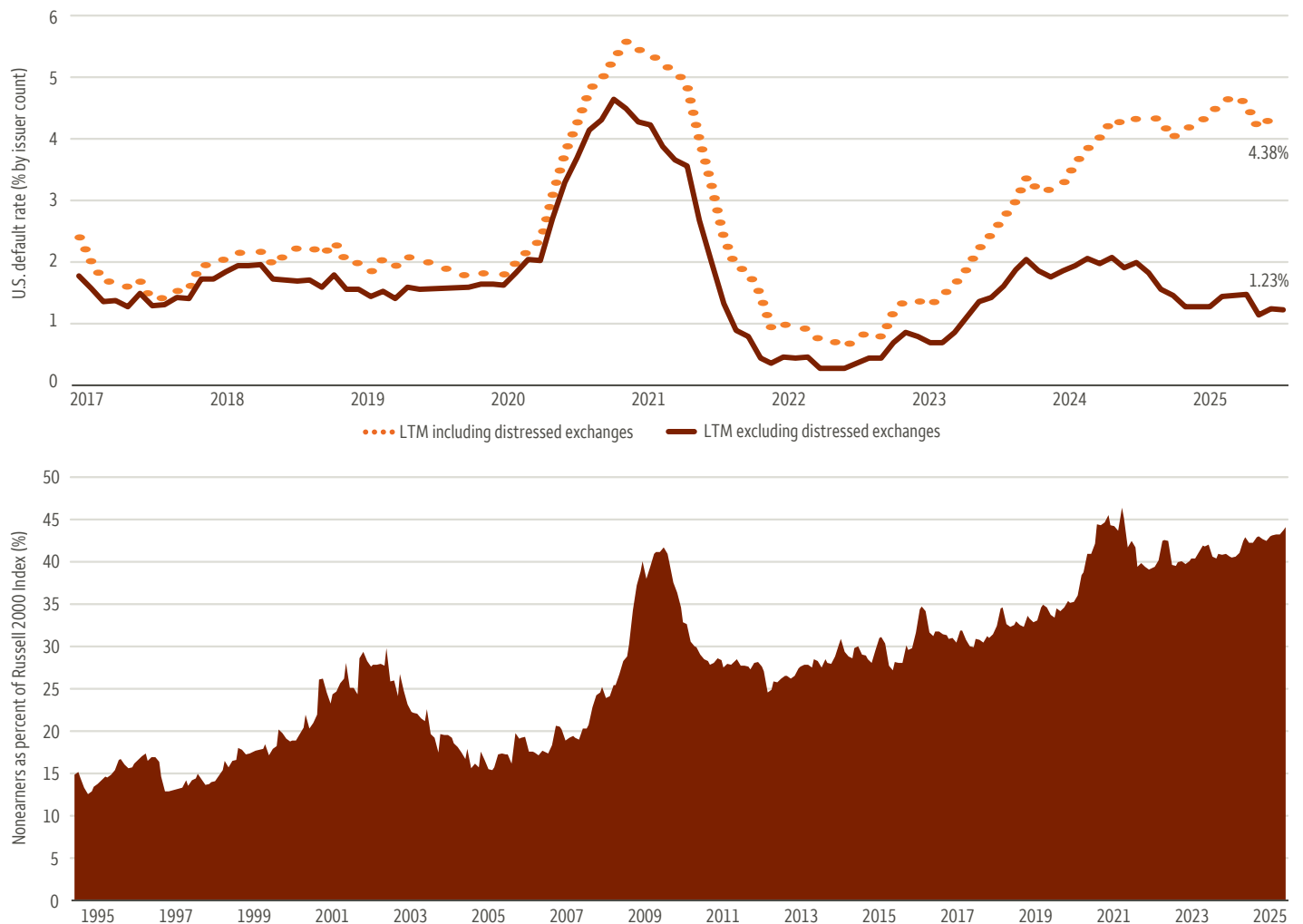
We maintain our focus on higher-quality strategies that rely less on debt as a means of financing. To that end, we remain favorable on Growth Equity strategies, as they target established businesses with proven business models that may be generating significant revenue and/or earnings. In buyouts, we favor Small/Mid Buyout (favorable) over Large Cap Buyout (neutral) strategies, where the large debt packages have remained an obstacle for many acquirers. Greater clarity on the extent of rate cuts and their effect on activity over the next few quarters may lead to an improved outlook in this category.

In Private Debt, we believe that the opportunity set for Distressed/Special Situations strategies will likely remain robust for the near future, into the initial stages of our expected recovery in late 2025 and early 2026. We continue to believe stress levels will build because many small and midsize firms are not likely generating enough cash to meet regular operating expenses and debt-service costs.

Many struggling companies are opting to restructure their debts through distressed exchanges, which are transactions to improve the overall health of the company by reducing debt, extending maturities, or reducing regular debt-service payments. The rating agencies still regard distressed exchanges as defaults, with negative impacts for some creditors. However, these distressed exchanges avoid the costly Chapter 11 bankruptcy process and may allow owners and investors to preserve their equity stakes through restructuring. The chart on the next page illustrates the growing popularity of these exchanges. Moreover, as confirmation that the lowest-quality segment of companies may still not be in the clear, the percent of the small-company universe (Russell 2000 Index) with negative earnings (also known as nonearners) on a 12-month trailing basis continues to register over 40%, up from under 30% a decade ago (bottom panel in the chart).

9. Sources: Morningstar Direct and Wells Fargo Investment Institute. Data from January 1, 1990, to February 28, 2025. Up-capture and down-capture data as of February 28, 2025. Global equities = MSCI World Index. Hedge funds = HFRI Fund Weighted Composite Index. Between January 1990 and February 2025, the S&P 500 Index gained 3.33% on average in an up month but lost 3.66% in an average down month. By comparison, the monthly Hedge Fund Research Inc. Fund Weighted Composite rose 1.64% when stocks rose but lost only 0.77% on average when stocks fell. Hedge funds participated when stocks rose but had more limited downside when stocks fell. An index is unmanaged and not available for direct investment.

Distressed exchanges have trended upwards, small-cap company nonearners have reached record levels



Sources: Upper panel — Wells Fargo Investment Institute and Pitchbook. Data as of April 30, 2025. LTM = last 12 months. Lower panel — Wells Fargo Investment Institute and Bloomberg. Distressed exchanges are transactions to improve the overall health of the company by reducing debt, extending maturities, or reducing regular debt-service payments. A nonearner is a constituent company of the Russell 2000 Index that has negative earnings. Data as of April 30, 2025. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Lastly, we continue to maintain our neutral guidance within Private Real Estate. Although green shoots may be forming (such as easing bank-lending standards and lower short-term interest rates), several prominent sectors including Industrial and Residential Multifamily continue to digest excess capacity from new developments. For example, the number of multifamily residential housing unit completions increased

from a trough of 130,000 in 2011 to a recent peak of over 588,000 units¹⁰ in 2024. For investors seeking exposure to real assets, we prefer Private Infrastructure strategies that have historically offered relatively stable cash flow and income growth potential while providing a hedge against rising inflation.

10. U.S. Census Bureau, U.S. Department of Housing and Urban Development, and Wells Fargo Investment Institute. Data as of December 31, 2024.

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

Top five portfolio ideas for the balance of 2025

1 | Position portfolios for policy and geopolitical uncertainties

Rapid economic policy changes over the past few months have roiled investors and capital markets. Beyond the sheer complexity of reshaping the global trade order, we remain cautious of persistent regional conflicts in Eastern Europe and the Middle East and lingering geopolitical tensions in the East and South China Seas. As the chart below shows, U.S. economic-policy uncertainty has escalated since the 2024 election, largely due to the tariff turmoil, and it has recently exceeded levels seen at the peak of the 2020 – 2021 pandemic.

Amidst the policy-induced ebbs and flows, one counter strategy is to seek portfolio exposure to areas that are expected to suffer less negative impact. As mentioned earlier, reallocating from the Consumer Discretionary equity sector to the Utilities sector could hedge against extended equity-market downside and tariff uncertainty.

Our favorable sub-sectors within the Industrials sector like Aerospace & Defense and Commercial & Professional Services have low exposure to broad economic growth and tariffs in general. For qualified investors, we suggest Macro – Discretionary hedge funds with their potential to benefit from geopolitical uncertainty and market trends driven by macroeconomics and policy shifts. We also favor hedge fund strategies that have historically offered both upside and downside potential in volatile markets, including Relative Value – Long/Short Credit and Equity Hedge – Directional.

For investors who remain hesitant, some buffer in a higher-yielding money-market position may be prudent until markets settle. Once asset prices regain their footing as we expect, we would favor using available cash to acquire quality assets judiciously through dollar-cost averaging.

Policy uncertainty has risen post-election



Sources: Wells Fargo Investment Institute; Bloomberg; and Baker, Bloom, and Davis. Monthly data, January 2018–April 2025. *Three-month moving average data. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

2 | Focus on quality and diversifying assets

We believe a focus on quality asset classes and sectors together with proper diversification are essential during this period of policy uncertainty and slowing economic growth. Although U.S. large-cap and mid-cap equities have been underperforming developed-market equities in 2025, they remain an important longer-term allocation within U.S. investors' portfolios (see chart below). We believe these higher-quality assets are well-suited to weather the policy storm given their strong balance sheets, earnings, and profitability.

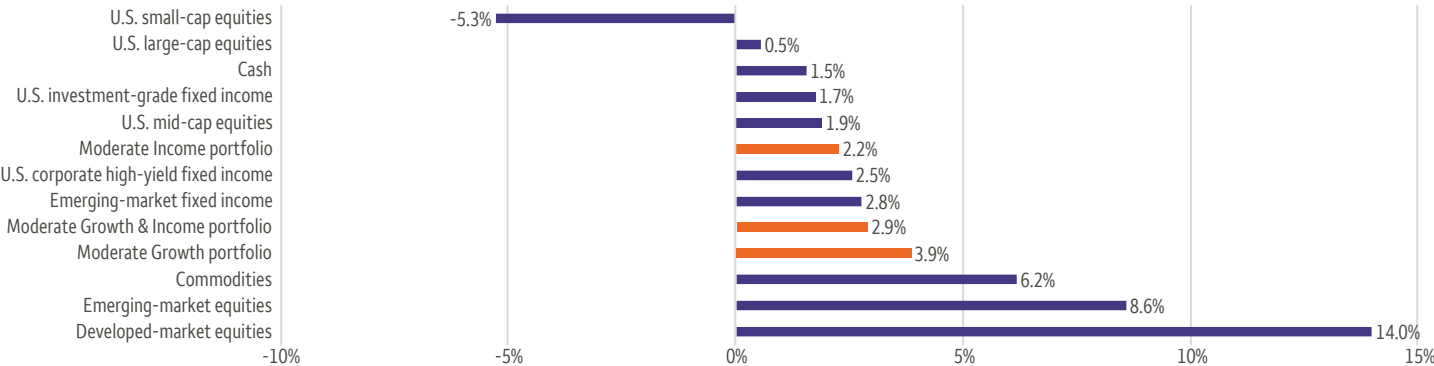
These same factors drive our favorable equity-sector guidance. We expect the global economy to regain some traction later in 2025 and anticipate that our favorable sectors will outperform. Moreover, we also believe sectors like Information Technology and Communication Services have solid long-term growth trends. We suggest considering exposure to these sectors if market drawdowns create buying opportunities. Funding sources could come from excess cash or through trimming overextended positions in areas we view unfavorably (such as Consumer Staples). Our quality bias extends internationally where we prefer DM ex-U.S. over EM Equities, especially considering the latter's relatively high weighting of Chinese equities.

We believe fixed income can serve as a potential counterbalance to equities, but we believe now is not the time to significantly overweight the extremes of risk in cash and high yield. However, we believe some short-term fixed-income cushion makes sense, especially to avoid being compelled to sell investments while financial markets are volatile. Still, we expect short-term yields to ease gradually this year and next. Aside from cash for emergencies and for a cushion against near-term volatility, we favor taking opportunities to incrementally invest surplus cash.

We do not favor overweighting U.S. High Yield Debt, despite an attractive yield of over 8%, according to the Bloomberg U.S. Corporate High Yield Bond Index. That's because the spread between that yield and average yield on otherwise comparable investment grade bonds has widened in the five months through May 2025, according to the Bloomberg U.S. Corporate High Yield Average Option-Adjusted Spread.

Commodities also may help diversify. We favor Energy, which may hedge against inflation risk. In addition, the Bloomberg Precious Metals Subindex gained 12.1% versus a 15.8% loss in the S&P 500 Index (on a total return basis), as tariff uncertainties surged between February 19, 2025 and April 21, 2025. Precious metals may continue to hedge as tariff uncertainties persist.

Year-to-date returns of select assets as of May 13, 2025



Sources: Wells Fargo Investment Institute, Bloomberg, and Morningstar Direct. Year-to-date data as of May 13, 2025. Representative indexes include: U.S. small-cap equities: Russell 2000 Index; U.S. large-cap equities: S&P 500 Index; U.S. mid-cap equities: Russell Midcap Index; U.S. corporate high-yield fixed income: Bloomberg U.S. Corporate High Yield Bond Index; emerging-market equities: MSCI Emerging Markets Index; emerging-market fixed income: J.P. Morgan Emerging Markets Bond Index Global; cash: Bloomberg U.S. Treasury Bill (1-3 Month) Index; U.S. investment-grade fixed income: Bloomberg U.S. Aggregate Bond Index; commodities: Bloomberg Commodity Total Return Index; developed-market equities: MSCI EAFE Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

3 | Cushion portfolios with income-generating assets

Fixed-income markets have been rattled by the recent volatility within the U.S. Treasury market. The Merrill Lynch Option Volatility Estimate (MOVE) Index, measuring volatility in U.S. Treasury futures, has gyrated to levels last seen during the 2022 bear market. Nonetheless, fixed-income assets offer a steady stream of cash flow for investors seeking income. As the yields on shorter maturities may fall faster than on longer maturities, we believe the best opportunities are in the intermediate space (five- to seven-year maturities), offering attractive income and exposing investors to less volatility than longer-dated maturities.

We see an opportunity for investors seeking tax-exempt income as municipal-bond yields have recently climbed, and we believe that the tax-exempt status of municipal securities is not at risk of being repealed.

Investors may consider diversifying income sources from other asset classes. Some of the sectors we favor offer attractive dividend yields. For example, the S&P 500 Energy sector offers approximately 3.5% in dividend income. Qualified investors can further increase their portfolio’s income potential by including Direct Lending, a subclass of Private Debt. Within alternative strategies, Direct Lending currently offers the most attractive yield at nearly 11%.¹¹

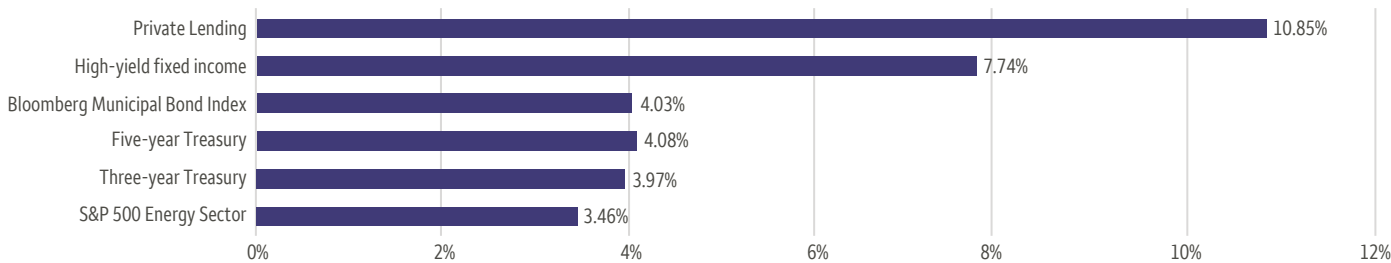
4 | Selectively add exposure to AI

Generative AI is transforming industries, and we believe it is ushering in a new era of productivity and innovation. From enhancing manufacturing processes to optimizing operations in technology and energy sectors, AI is driving significant growth. Its adoption is generating investments in infrastructure and workforce development, setting the stage for a long-term economic impact.

AI’s transformative potential is most evident in manufacturing. Smart technologies, robotics, and predictive analytics enable streamlined operations, waste reduction, and productivity gains. AI may help to facilitate some of the current administration’s goals such as reshoring production, reducing dependence on global supply chains, and stimulating local economies. AI innovations are creating investment opportunities in infrastructure, supply-chain systems, and clean-energy solutions.

Additionally, AI’s adoption opens opportunities across cyclical equity sectors, including our favored Information Technology, Communication Services, Energy, and Financials sectors. The U.S. is the leader in AI innovation, supported by key sub-sectors such as Semiconductors, Software, and Interactive Media & Services. However, global competition is intensifying. China’s DeepSeek exemplifies this shift by broadening accessibility and scaling applications. DeepSeek signals the complexities of the AI evolution, offering diversification prospects for investors while challenging U.S. dominance.

Current yields and dividends of selected assets



Sources: Wells Fargo Investment Institute, Bloomberg. Data as of May 12, 2025. Private lending data as of December 31, 2024. Representative indexes include Private Lending: Cliffwater Direct Lending Index; High Yield Fixed Income: Bloomberg U.S. Corporate High Yield Bond Index; and S&P 500 Energy sector: S&P 500 Energy Index. An index is unmanaged and not available for direct investment.

Past performance is no guarantee of future results.

11. Current yield as of December 2024 for the Cliffwater Direct Lending Index, an asset-weighted index of approximately 14,800 directly originated middle-market loans as of December 31, 2024. “2024 Q4 Report on U.S. Direct Lending.”

To capitalize on AI's global growth, a diversified investment approach is essential. Data centers are key drivers across sectors like Industrials and Utilities, bolstered by demand for electrification and infrastructure. While U.S. tech giants lead AI capital expenditures, emerging markets such as China have the ability to offer cost-efficient development, scalable infrastructure, and quick deployment in AI-related downstream applications.

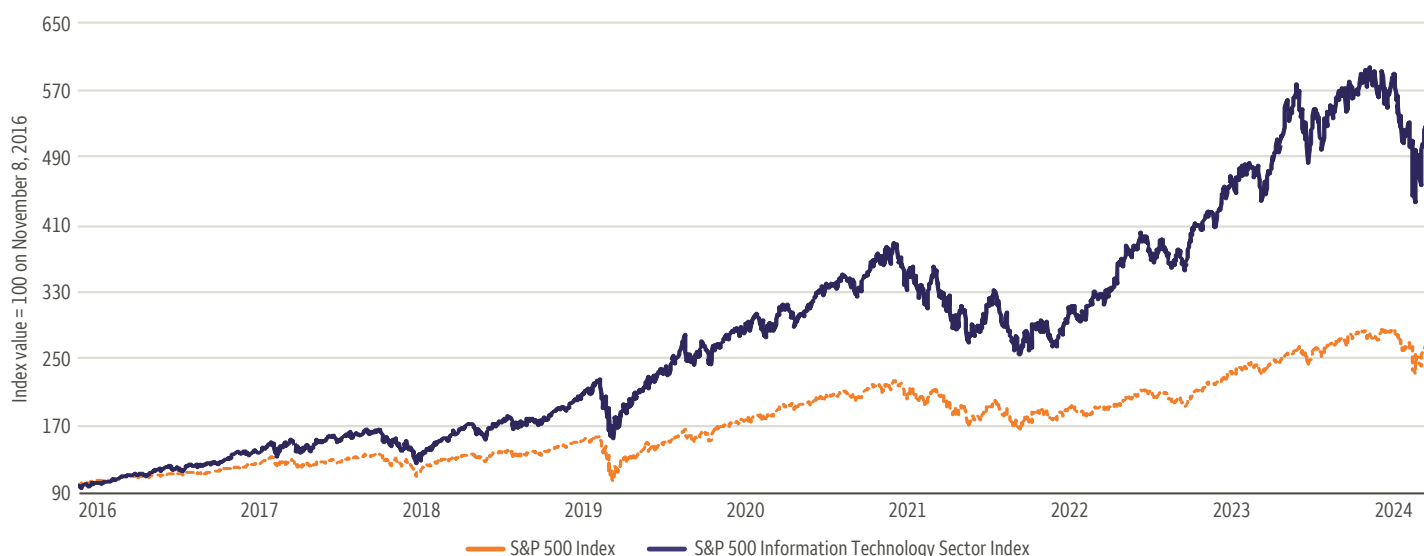
5 | Complement U.S. exposure with international assets

Year to date, international stocks have significantly outperformed U.S. equities following a 15-year stretch in which the S&P 500 Index dominated both developed and emerging markets. Going forward, we have little doubt the U.S. can maintain its status as the global leader both economically and in terms of equity-market performance. U.S. strength comes from various sources that we do not see developing overseas — including stronger productivity

growth, lower regulation, and a dominant position in developing and implementing new technologies. As the below chart shows, the Information Technology sector of the S&P 500 Index outpaced the rest of the index by a wide margin since 2016, even accounting for a correction between late 2024 and early 2025. We believe U.S. dominance in tech-related sectors will likely persist because the U.S. economy is more service-oriented versus the rest of the world with a more dynamic economy, which we expect will eventually yield more productivity gains from AI. Also, U.S. energy independence should make it less vulnerable to shocks and benefit the country's growing energy needs.

We believe U.S. markets will resume their leadership after this recent period of underperformance, although the gap with other economies could narrow. Our equity guidance favors U.S. over international exposure; however, we prefer to complement U.S. exposure with a neutral (full) allocation to DM ex-U.S. Equities and an underweight exposure to EM Equities as these countries focus on growing their economies and adapting to the new world order.

Information Technology sector's outperformance



Sources: Wells Fargo Investment Institute and Bloomberg. Daily data from November 8, 2016–May 13, 2025. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

2025 and 2026 economic and market targets

GLOBAL ECONOMY	LATEST	2025 TARGETS	2026 TARGETS
U.S. GDP growth	2.6% (Q1)	1.0%	1.8%
U.S. inflation ¹	2.3% (Apr.)	3.5% (Dec.)	2.6% (Dec.)
U.S. unemployment rate ²	4.2% (May)	4.8% (Dec.)	5.3% (Dec.)
Global GDP growth ³	3.4% (Q1)	2.1%	2.6%
Global inflation ³	5.0% (Q1)	3.5%	3.0%
Developed-market GDP growth ⁴	1.7% (Q1)	0.9%	1.7%
Developed-market inflation ⁴	3.7% (Q1)	2.8%	2.5%
Eurozone GDP growth	0.9% (Q1)	0.9%	1.2%
Eurozone inflation ¹	1.9% (May)	2.7% (Dec.)	1.8% (Dec.)
Emerging-market GDP growth	4.6% (Q3)	3.0%	3.3%
Emerging-market inflation	5.9% (Q1)	4.1%	3.3%

Sources: Wells Fargo Investment Institute and Bloomberg. All latest numbers from Bloomberg as of June 6, 2025. Targets for 2025 and 2026 are based on forecasts by Wells Fargo Investment Institute as of June 10, 2025, and provide a forecast direction over a tactical horizon through 2026. **Average percent change from the same period a year ago unless otherwise noted.** GDP = gross domestic product. CPI = Consumer Price Index. Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter. 1. 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. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

GLOBAL EQUITIES	LATEST	YEAR-END 2025 TARGETS	YEAR-END 2026 TARGETS
S&P 500 Index	5,912	5,900–6,100	6,400–6,600
S&P 500 EPS	\$247	\$260	\$285
Russell Midcap Index	3,548	3,600–3,800	4,100–4,300
Russell Midcap EPS	\$183	\$190	\$210
Russell 2000 Index	2066	2,000–2,200	2,200–2,400
Russell 2000 EPS	\$69	\$70	\$80
MSCI EAFE Index	2,600	2,400–2,600	2,800–3,000
MSCI EAFE EPS	\$154	\$160	\$175
MSCI Emerging Markets (EM) Index	1,157	1,000–1,200	1,100–1,300
MSCI EM EPS	\$77	\$75	\$85

Sources: Wells Fargo Investment Institute and Bloomberg. Latest index level data from Bloomberg as of May 30, 2025. Latest EPS (earnings per share) figures are year-end 2024 EPS actuals, as of May 30, 2025. All targets for 2025 and 2026 are based on forecasts by Wells Fargo Investment Institute as of June 10, 2025, and provide a forecast direction over a tactical horizon through 2026. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

GLOBAL FIXED INCOME	LATEST	YEAR-END 2025 TARGETS	YEAR-END 2026 TARGETS
10-year U.S. Treasury yield	4.40%	4.00%–4.50%	4.25%–4.75%
30-year U.S. Treasury yield	4.93%	4.25%–4.75%	4.50%–5.00%
Federal funds rate	4.25%–4.50%	4.00%–4.25%	3.75%–4.00%

GLOBAL REAL ASSETS	LATEST	YEAR-END 2025 TARGETS	YEAR-END 2026 TARGETS
WTI crude oil price (\$ per barrel)	61	60–70	65–75
Brent crude oil price (\$ per barrel)	64	65–75	70–80
Gold price (\$ per troy ounce)	3,289	3,000–3,200	3,400–3,600
Bloomberg Commodity Index	246	250–270	265–285

CURRENCIES	LATEST	YEAR-END 2025 TARGETS	YEAR-END 2026 TARGETS
Dollars per euro exchange rate	\$1.13	\$1.08–\$1.12	\$1.04–\$1.08
Yen per dollar exchange rate	¥144	¥144–¥148	¥148–¥152
Dollar composite exchange rate ⁵	99	101–105	103–107

Sources: Wells Fargo Investment Institute and Bloomberg as of May 30, 2025. Targets for 2025 and 2026 are based on forecasts by Wells Fargo Investment Institute as of June 10, 2025, and provide a forecast direction over a tactical horizon through 2026. WTI = West Texas Intermediate. 5. The ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, composed of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc. A higher index value indicates dollar appreciation. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.**

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Definitions

An index is unmanaged and not available for direct investment.

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

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

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

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

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

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

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

Bloomberg 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.

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

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

Morningstar LSTA U.S. Leveraged Loan Index is a market-value-weighted index designed to measure the performance of the U.S. leveraged-loan market. The legacy payment default rate includes Morningstar LSTA U.S. Leveraged Loan Index constituents where the company files for bankruptcy, the facility gets downgraded to D by S&P (excluding distressed exchanges and subpar buybacks), or the interest payment is missed without a forbearance. Distressed exchanges include all liability management transactions considered a distressed exchange or default by S&P Global Ratings.

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

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

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

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

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000® Index.

S&P 500 Index is a market-capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market. Returns assume reinvestment of dividends and capital-gain distributions.

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

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

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

Risk considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

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:

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

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.

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

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

U.S. government securities are backed by the full faith and credit of the federal government as to payment of principal and interest if held to maturity. Although Treasuries are considered free from credit risk they are subject to other types of risks. These risks include interest-rate risk, which may cause the underlying value of the bond to fluctuate.

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

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

Bond rating firms, such as Moody's, Standard & Poor's and Fitch, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality and are commonly referred to as "junk bonds."

Sector investing

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. **Communication** services companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation, and approval of products and services. In addition, companies within the industry may invest heavily in research and development, which is not guaranteed to lead to successful implementation of the proposed product. Risks associated with the **Consumer Discretionary** sector include, among others, apparel price deflation due to low-cost entries, high inventory levels, and pressure from e-commerce players; reduction in traditional advertising dollars, increasing household debt levels that could limit consumer appetite for discretionary purchases, declining consumer acceptance of new product introductions, and geopolitical uncertainty that could affect consumer sentiment. **Consumer Staples** industries can be significantly affected by competitive pricing particularly with respect to the growth of low-cost emerging-market production, government regulation, the performance of the overall economy, interest rates, and consumer confidence.

The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in **Financial** services companies will subject a investment to adverse economic or regulatory occurrences affecting the sector. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations, and government approval of products anticipated to enter the market. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation, and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing, and cost containment issues. **Real estate** investments have special risks, including possible illiquidity of the underlying properties, credit risk, interest-rate fluctuations, and the impact of varied economic conditions. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks and smaller, less-seasoned companies, tend to be more volatile than the overall market.

Alternative investments

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

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

Hedge fund strategies, such as **Event Driven, Equity Hedge, Global Macro, Relative Value, Structured Credit, and Long/Short Credit**, may expose investors to the risks associated with the use of short selling, leverage, derivatives, and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential because the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage, which can magnify volatility and may entail other risks, such as market, interest-rate, credit, counterparty, and management risks. Private capital investments are complex, speculative investment vehicles not appropriate for all investors. They are not subject to the same regulatory requirements as registered investment products and engage in leverage and other aggressive investment practices. There is often limited (or even nonexistent) liquidity and a lack of transparency regarding the underlying assets.

Real assets

Real assets are subject to the risks associated with **real estate, commodities**, and other investments and may not be appropriate for all investors. The **commodities markets**, including investments in **gold and other precious metals**, are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value, which may result in greater share price volatility. Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity. Products that invest in commodities may employ more complex strategies, which may expose investors to additional risks.

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

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