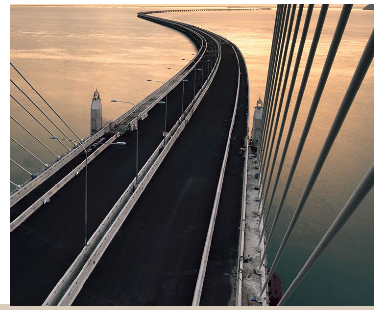
WELLS FARGO
Investment Institute

Investment Strategy



Weekly guidance from our Investment Strategy Committee **March 11, 2024**

Fixed Income Spotlight

Luis Alvarado
Global Fixed Income Strategist

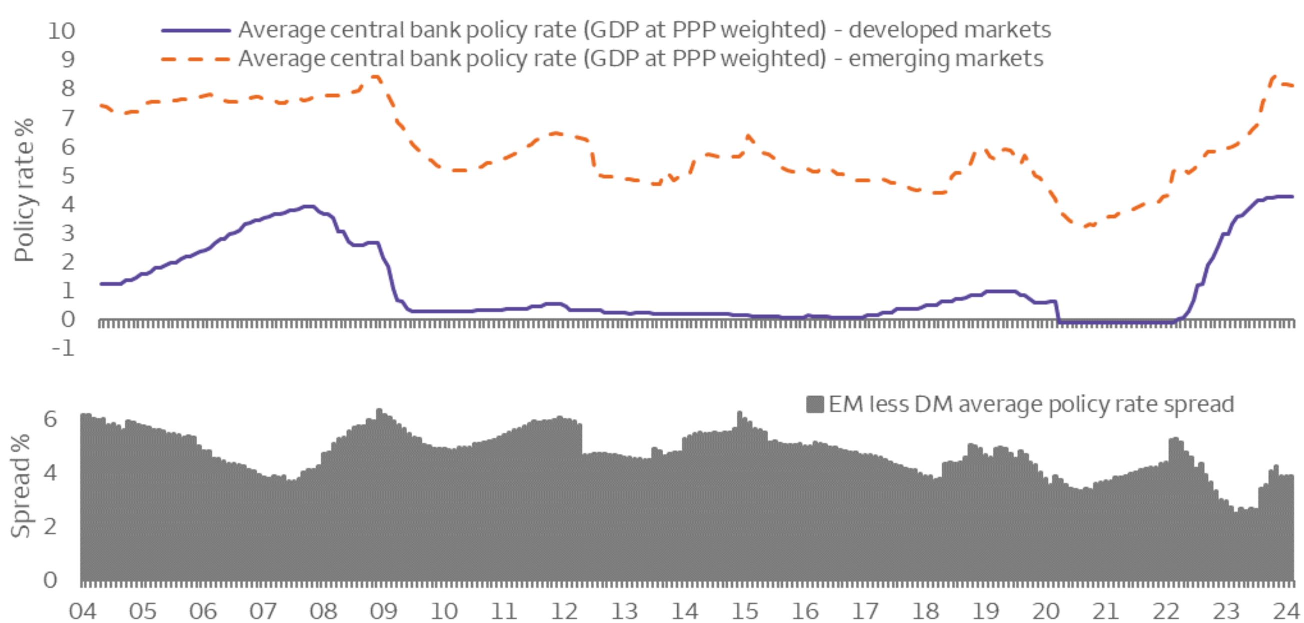
Momentum to continue for emerging market bonds in 2024

We reiterate our view that 2024 will likely display a continuation of positive performance for EM sovereign bonds, both U.S.-dollar- and local-currency-denominated, following an exceptional 2023. However, it is important to point out that most of the support may come on the back of potential interest rate cuts by the Federal Reserve (Fed) and from a weakening U.S. dollar relative to key EM currencies.

So when we suggest positive returns in 2024, we are thinking mainly of these two drivers. First, for EM bonds in dollars, we believe that the headwind of higher U.S. Treasury yields will become neutralized as yields stabilize over the next two quarters, in line with subsiding inflation. Although there may be some risks if U.S. Treasury yields climb a bit higher toward year-end should economic growth start to pick back up. Second, local-currency EM debt may potentially present the U.S.-dollar-based investor with better performance this year, if, as we expect, moderating inflation and a more lenient, easier Fed result in the U.S. dollar moving modestly lower.

For now, we believe the risks of significantly tighter financial and credit conditions are diminishing. Outside of an outright economic slowdown, we do not expect U.S. credit spreads to widen materially from current levels and, in that context, it would be reasonable to expect EM sovereign spreads will also remain range bound and contained below historical averages. However, if spreads were to widen against a recessionary backdrop, this move would likely be offset by lower Treasury yields and, even if the balance of these moves results in index yields pushing higher in 2024, then the current starting point for the J.P. Morgan Emerging Markets Bond Index (the Index) yields, at 8% – 9%, broadly reflecting the income component of any return, provides a more robust cushion against capital losses.

Chart 1. Emerging markets' interest rate advantage



Sources: International Monetary Fund (IMF), Bloomberg, and Wells Fargo Investment Institute. Latest data as of February 29, 2024. The Developed Markets (DM) series is a weighted average of 11 DM central bank policy rates, using gross domestic product (GDP) at purchasing power parity (PPP) as weights. The EM series is a weighted average of 26 EM central bank policy rates, using GDP at PPP as weights. Purchasing power parity is the measurement of prices in different countries that uses the prices of specific goods to compare the absolute purchasing power of the countries' currencies.

Proactive central banks and a larger rate cushion

Chart 1 illustrates a couple of reasons for this outperformance from EM currencies and local debt, and also for EM debt's generally greater resilience in recent years. EM central banks have been raising policy interest rates since mid-2020, and in aggregate rates are around four percentage points higher, reaching above 8%, whereas developed market (DM) central banks have been playing catch-up since early 2022. Higher rates across (local) yield curves give EM central banks more policy flexibility in tackling both inflation and economic downturns, and the wider yield differential in itself provides both greater currency resilience and a larger cushion against capital losses if rates where to rise further again.

Balancing duration[1] and credit — remain neutral for now

In short, EM U.S.-dollar-denominated sovereign Index yields are a more attractive proposition at the 7% – 8% levels seen currently then at the 4% – 5% range of 2021. Balancing duration and credit, we are neutral on the sector right now, but with the expectation of Fed interest rate cuts and the dollar approaching turning points if inflation subsides this year, this could provide an opportunity for a more positive view on the asset class.

1. Duration is a measure of interest rate sensitivity.

Equities

Sameer Samana
Senior Global Market Strategist

Oil price finds support

Since last year's geopolitically driven spike, oil prices have been drifting lower as concerns about weak demand and oversupply have weighed on sentiment. However, given the price action of the past few months, it seems that support has once again been found in the $60 – $70 range. The forming of this trough is probably due to a combination of recent efforts by the Chinese authorities to shore up their economy and by the Organization of Petroleum Exporting Countries to curtail excess supply.

This has important implications for markets. First, the rise in oil and commodities more broadly should put upward pressure on inflation measures. That means that the Fed will have much less room to cut interest rates, which has been an important pillar of the equity market's bullish thesis. Second, we believe that a move higher in interest rates and inflation expectations should cap the performance of high-multiple, growth-oriented sectors, and potentially markets more broadly. In our view, investors seeking to take advantage should instead consider the commodities asset class and the energy equity sector, both of which are favorably rated.

While oil price is currently in a downtrend, we believe it recently bottomed out in the $60 – $70 range. Future pullbacks should find support at the 200-day moving average ($77.77) and the 50-day moving average ($75.03). Resistance should be found at the psychologically important $80 level and the recent highs ($89.37, $93.68).

Oil with moving averages

Sources: Bloomberg and Wells Fargo Investment Institute. Daily data from March 1, 2021, through March 1, 2024. CL1 Comdty is West Texas Intermediate (WTI) crude oil price. WTI is a grade of crude oil used as a benchmark in oil pricing. **Past performance is no guarantee of future results.**

Real Assets

Mason Mendez
Investment Strategy Analyst

John LaForge
Head of Real Asset Strategy

El Niño is contributing to agricultural price weakness

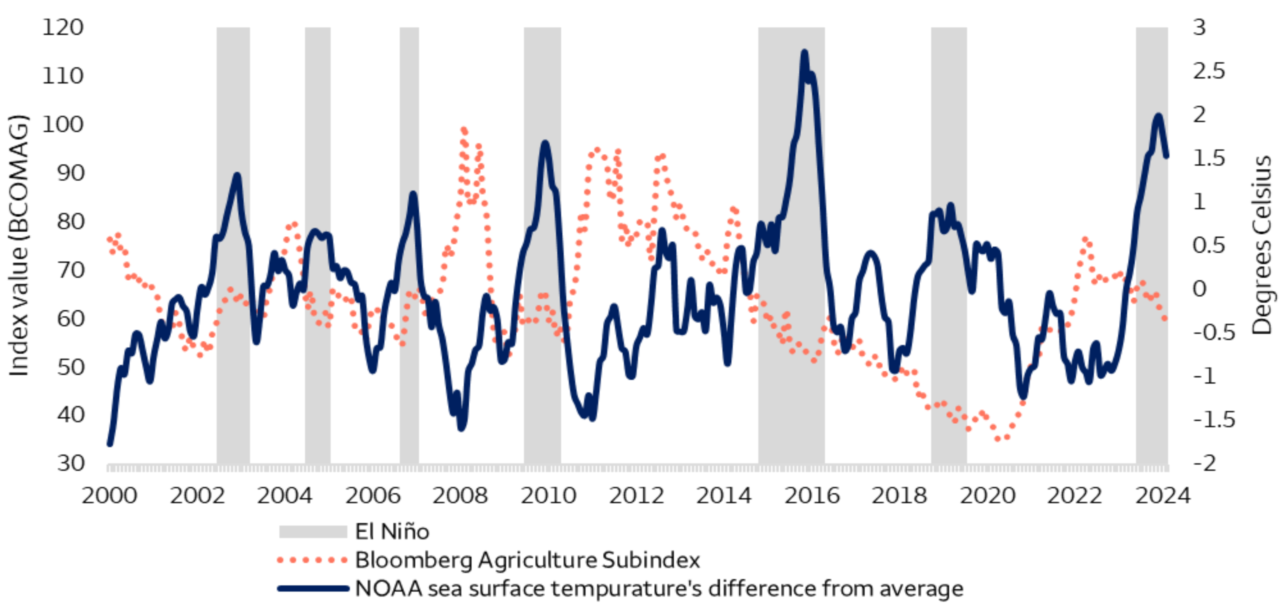
Over the past year, agricultural commodity prices have been particularly weak. There are many reasons why, but most are related to supply. The Russia-Ukraine war, as an example, has led to both countries producing and exporting more food commodities to help aid their economies. Another example would be the record harvests in 2023 from two key growing regions, the United States and Brazil.

Perhaps the most overlooked supply-related issue is El Niño, which began in June 2023. El Niño is a naturally occurring weather pattern associated with warming surface temperatures in the Pacific Ocean. It emerges every three to four years, on average, and usually lasts about a year. It is known to cause drastic changes in the climate, and crop yields, especially around North America. During a typical El Niño, the Northern U.S. and Canada are often dryer and warmer than normal, while the U.S. Gulf Coast and Southeast wetter than normal.

The impacts of El Niño, in the past, have varied by region and by commodity. The general impact on agricultural commodity prices, however, is often determined by the strength of El Niño. We show this in the chart below, which plots the Bloomberg Agricultural Subindex (dashed orange line) against the strength of El Niño (solid blue line). The vertical grey shaded areas represent past El Niño periods. Notice that the strongest instances of El Niño (rising solid blue line), have also been periods of weaking agricultural prices (falling dashed orange line).

The bottom line is that we remain neutral on agricultural commodity prices. Oversupplies remain a nagging global issue for many food-related commodities, compounded in part by the El Niño weather pattern that emerged in June 2023. While El Niño's strength is subsiding and should end soon, agricultural commodity prices still appear weak, which keeps us cautious.

Bloomberg Agriculture Subindex during El Niño



Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data is from January 2001 – February 2024. BCOMAG = Bloomberg Agriculture Subindex. The National Oceanic and Atmospheric Administration (NOAA) is a U.S. government agency tasked with forecasting and monitoring oceanic and atmospheric conditions. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Alternatives

Mark Steffen, CFA, CAIA
Global Alternative Investment Strategist

Private equity companies continue their ascent

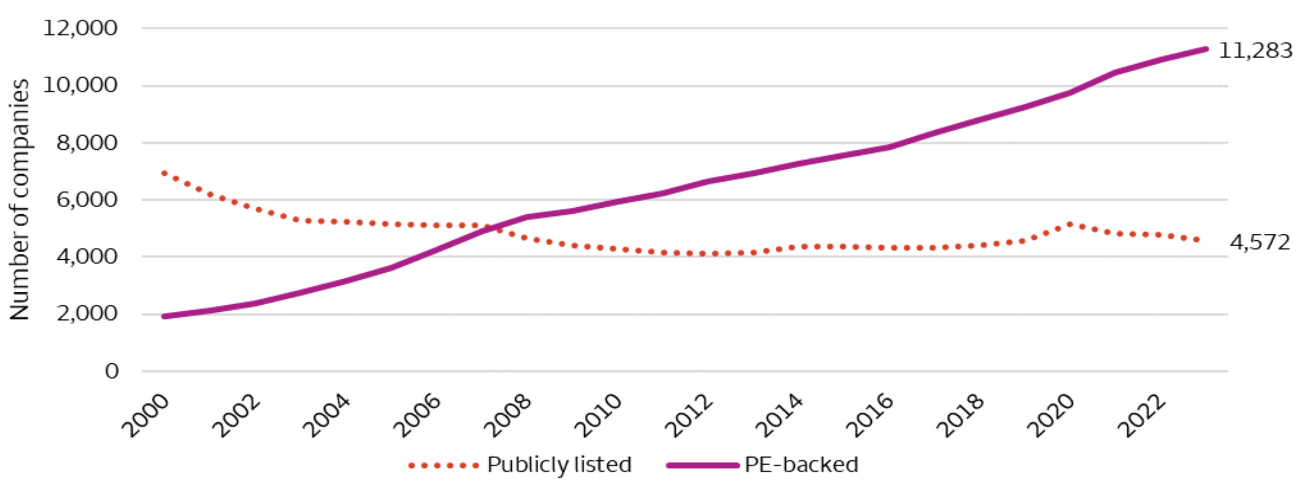
Despite a slowdown in private capital activity in the past couple of years, the growth in size of private markets continues unabated. The number of private-equity-owned companies continues its upward trajectory and now totals over 11,000 (excluding venture capital (VC) businesses), a stark contrast to the declining trend in the number of publicly listed companies that currently registers near 4,600 (chart below).

Historically, a key reason companies transition to the public markets is to gain greater access to capital. Yet, more recently, many companies are staying private longer and waiting later in their life cycle to enter the public domain. This trend may be due in part to the growth in private capital markets and the now readily available access to private equity (PE) or debt capital. However, this dynamic may also be influenced by the added benefits of avoiding costly public company regulatory reporting requirements and a focus that is often fixated on short-term results. This trend has resulted in companies remaining private during the higher growth phase of their life cycle, with the accompanying outsized returns achieved accruing to private market investors. In addition, another trend contributing to this widening gap includes the recent increase in mid-cap public companies being taken private in recent years, a sign that private equity sponsors are beginning to invest their record levels of cash on hand.

While U.S. private equity fund values remain a small fraction of the overall value of the public equity market capitalization (6.2% per Pitchbook – data as of the end of 2023), the growing prominence of private capital markets shows no signs of slowing, in our view. We believe that investors that allocate to both public and private markets may potentially capitalize on the broadest array of opportunities when attempting to realize their long-term financial objectives.

In contrast to publicly listed companies, the number of private-equity-backed companies continues to grow.

PE-backed company count (excludes VC) versus domestic firms publicly listed on NYSE and Nasdaq



Sources: Pitchbook and World Bank Group. Data shown from calendar year 2000 through 2023. Data as of December 31, 2023.
Private-equity-backed companies: Includes companies in the Pitchbook database that are currently privately owned or are financially backed by a private equity investor. Includes companies categorized as buyout or growth equity companies (excluding venture capital) and does not include companies that were acquired by or merged with another company. Publicly listed: Includes U.S.-based firms publicly listed on the NYSE and Nasdaq stock exchanges.

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.

Tactical guidance*

Cash Alternatives and Fixed Income

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

Equities

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

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Private Real Estate	Commodities	

Alternative Investments**

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

Source: Wells Fargo Investment Institute, March 11, 2024. *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

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

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. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. **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. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate. 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.

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.

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

Bloomberg Agriculture Subindex is a commodity group subindex of the Bloomberg Commodity Index. It is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat. It reflects the return of the underlying commodity futures and is quoted in USD.

J.P. Morgan Emerging Markets Bond Index (EMBI Global) currently covers more than 60 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. An index is unmanaged and not available for direct investment.

General disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. PM-09072025-6463458.1.1