

# Investment Strategy

Weekly guidance from our Investment Strategy Committee April 6, 2026

**Equity Spotlight: Eye on supply in Equity Sectors ..... 2**

- Roughly a month into the Iran war, we expect cost pressures for goods-producing sectors to persist at least through the second quarter of 2026.
- However, we view productivity growth, data center investment, and pricing power as important supports for corporate earnings.

**Fixed Income: Be cautious of using TIPS as an inflation hedge ..... 4**

- The ongoing threat to oil supply is causing some investors to consider increasing their exposure to Treasury Inflation-Protected Securities (TIPS) to mitigate inflation concerns.
- We maintain neutral guidance on TIPS and believe they can play a role in providing diversification to a fixed-income portfolio. However, we advise caution as TIPS indexes tend to have relatively long duration, which increases sensitivity to interest rate movements.

**Real Assets: Global Liquefied Natural Gas (LNG) supply takes a hit ..... 5**

- Reduced LNG output from Qatar is expected to have a lasting impact on international natural gas prices over the next few years.
- While we see a risk of “higher for longer” natural gas prices for Asia and Europe, the U.S. is relatively insulated from this impact due to the structure of the LNG industry.

**Alternatives: Navigating Private Credit through diversification ..... 6**

- We believe diversification can play a key role in supporting balance and resilience within private debt allocations in today’s market conditions.
- In addition to diversifying across company sizes and industries within direct lending, qualified investors may also consider selectively incorporating other private strategies, such as asset-based lending.

**Current tactical guidance ..... 7**

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

## Equity Spotlight

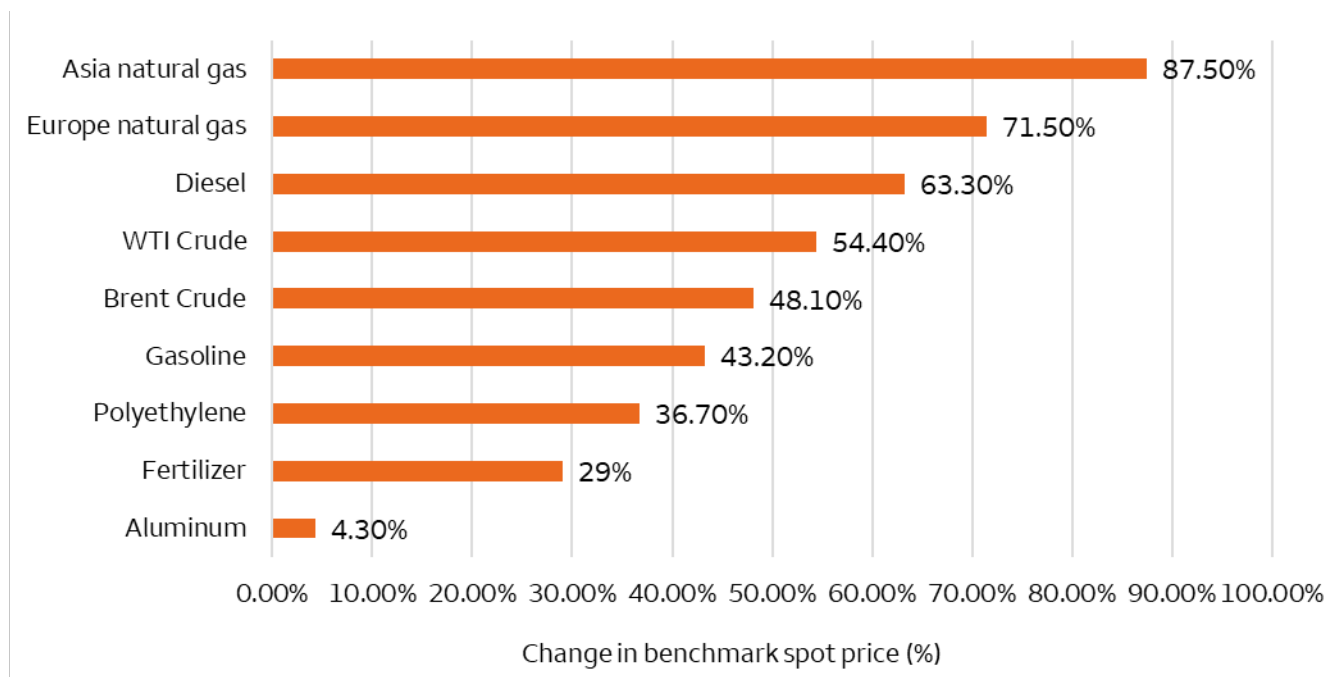
**Ian Mikkelsen, CFA**  
Equity Sector Analyst, Energy

**Lawrence Pfeffer, CFA**  
Equity Sector Analyst

### Eye on supply in Equity Sectors

Roughly a month into the Iran war, the impact has expanded beyond energy markets into a wider range of manufacturing inputs, creating near-term inflationary pressures that we expect to persist at least through the second quarter of 2026. Goods-producing sectors, such as Industrials, are some of the most exposed, given their heavy reliance on raw materials and components.

**Chart 1. Iran war drives rising input costs**



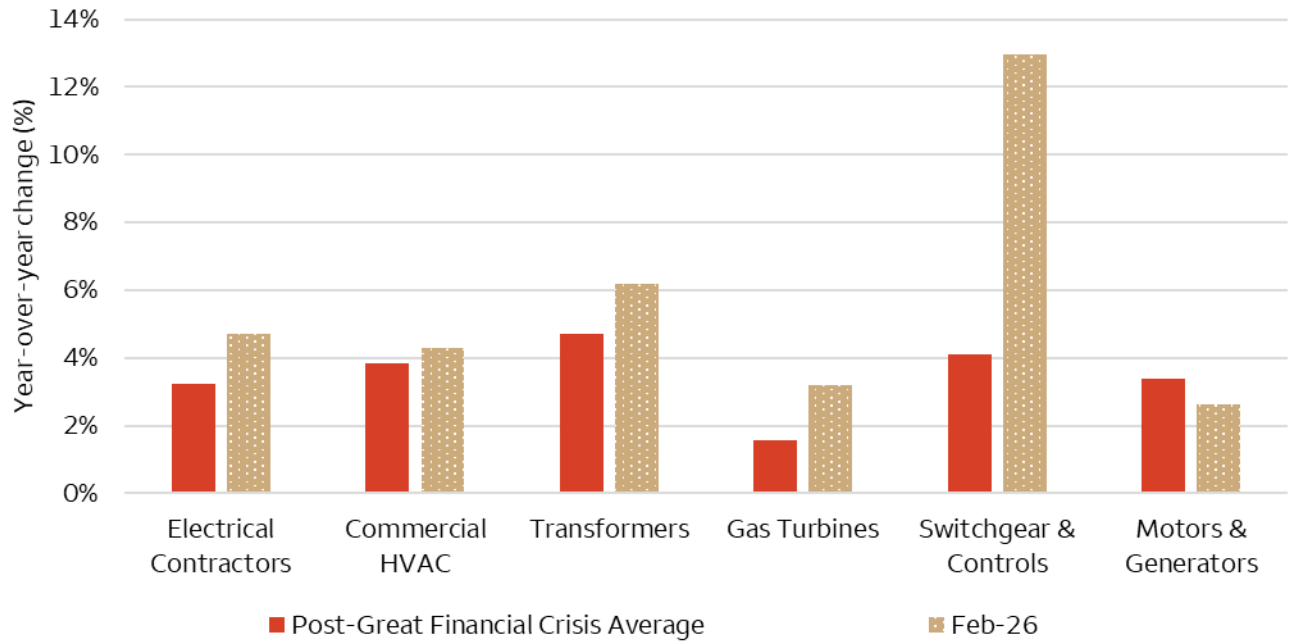
Sources: FactSet, Green Markets Fertilizer Price Index, and Wells Fargo Investment Institute (WFII). Percentage change in benchmark spot price for each input from February 27, 2026, through March 30, 2026, except for Fertilizer pricing which is February 27, 2026, through March 27, 2026. WTI = West Texas Intermediate.

**Past performance is no guarantee of future results.**

In this context, we remind investors that revenues and earnings are not inflation-adjusted. In other words, they reflect the interaction of volumes, pricing, and costs. When considering the broad corporate earnings outlook, including for goods-producing sectors, we continue to expect solid growth driven by productivity improvements and a robust business investment landscape to provide an important offset to higher input cost dynamics.

Relative to the inflation dynamic, we would note that rising prices, particularly at a level not high enough in aggregate to cause an economic downturn, can benefit companies that are able to pass-through higher costs. Industries with contractual cost pass-through mechanisms, strong market positioning, or durable secular demand drivers appear best positioned in our view. As an example, we point out that we expect pricing power for areas of the market tied closely to the data center complex to remain robust. Based on February 2026 producer price index (PPI) data, we would note that year-over-year pricing gains for the average of electrical contractors, commercial HVAC, transformers, gas turbines, switchgear and controls, and motors and generators came in at +5.7%.

**Chart 2. PPI inflation rates in data center-impacted categories**



Sources: U.S. Bureau of Labor Statistics and Wells Fargo Investment Institute (WFII). Post-Great Financial Crisis Average includes the period from July 2009 - January 2026. PPI = Producer Price Index.

Within Industrials, we acknowledge that near-term uncertainty could impact companies with direct Middle East revenue exposure, such as commercial aerospace and energy infrastructure. That said, we remain constructive on what we believe remains a strong capital formation cycle, particularly in the U.S. and expect the sector to largely pass through cost increases. We remain favorable on Industrials with strong pricing power and secular tailwinds, including Aerospace & Defense, Machinery, and Electrical Equipment.

Within Materials, this environment underscores our favorable view of Industrial Gases. These companies have the ability to directly pass through most inflation in energy and raw material costs due to the structure of customer contracts. Inflationary environments can also be positive for long-term pricing power for contract renewals or new projects. We believe the industry may benefit from increased utilization — driving positive operating leverage — from chemical and refinery customers in the U.S., though partially offset by potentially lower utilization by customers in Europe and China. Lastly, the industry is a key supplier of helium, and higher prices are a tailwind for the industry as some volumes are typically sold at spot market prices.

Energy markets meanwhile show mixed dynamics from a time horizon perspective. Elevated oil and refined product prices have provided a temporary earnings boost for exploration and production companies, refiners, and integrated oil firms. However, we believe this is reflected following strong year-to-date performance, and we suggest considering using recent strength to rebalance portfolios when suitable. Within Energy, from a strategic long-term perspective, we remain favorable on Integrated Oil and domestically focused Midstream companies.

# Fixed Income

**Luis Alvarado**

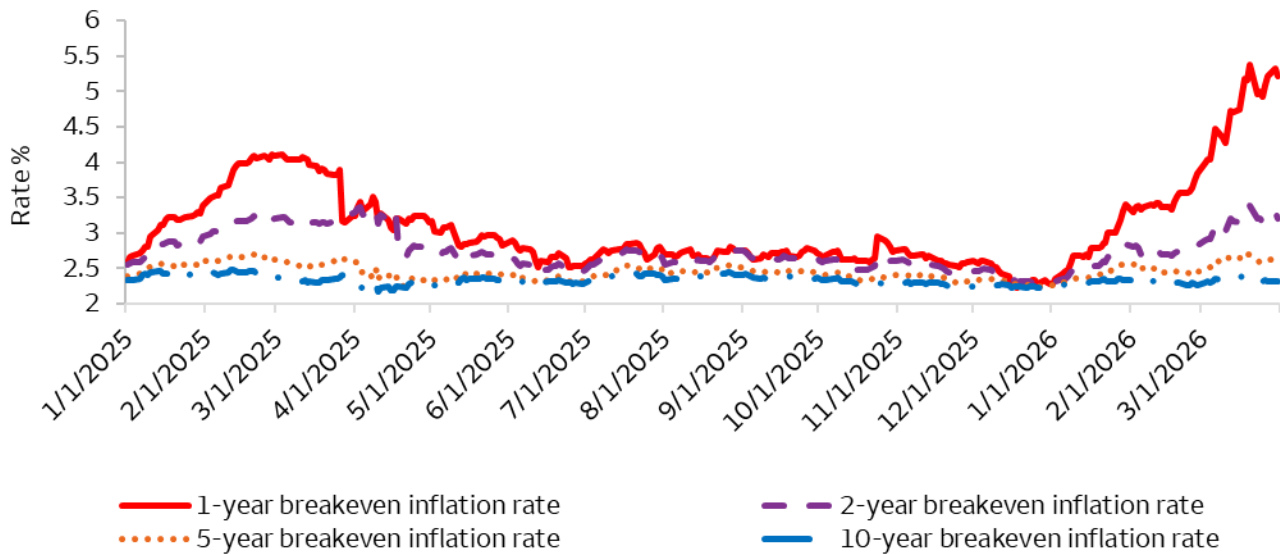
Co-Head of Global Fixed Income Strategy

## Be cautious of using TIPS as an inflation hedge

The ongoing threat to oil supply is causing some investors to consider increasing their exposure to TIPS in an effort to mitigate inflation concerns. Although TIPS can help an investor protect their purchasing power against unexpected changes in inflation, we anticipate the benefit is mostly likely when actual inflation exceeds the market’s expected inflation.

While we believe the oil supply disruption most likely will contribute to higher oil prices in the near term, longer-term bond market expectations for future inflation remain moderate. Breakeven inflation rates (the difference between nominal Treasury yields and TIPS yields) have already increased for the one- and two-years tenors while five-year and 10-year breakeven inflation rates have not risen significantly, indicating that bond investors have not priced in sustained higher inflation yet<sup>1</sup>. Federal Reserve (Fed) Chair Powell alludes to this when he stated that “policymakers have to monitor inflation expectations closely to make sure they remain anchored during a supply shock<sup>2</sup>.”

**Chart 3. U.S. breakeven inflation rates**



Sources: Bloomberg and Wells Fargo Investment Institute. Data as of March 31, 2026. The breakeven inflation rate represents a measure of expected bond market inflation derived from subtracting U.S. TIPS yields from nominal U.S. Treasury yields. The latest value implies what bond market participants expect inflation to be in the next year, two years, five years, and 10 years, on average.

In addition to changes in inflation expectations, TIPS’ market value is affected by changes in real interest rates. As is the case for any bond, when interest rates increase, the market price of the bond typically decreases. When interest rates fall, the market price of the bond typically increases. These interest-rate movements often help to explain how the TIPS’ market value sometimes increases even as inflation expectations fall, and it can explain how TIPS’ market value can fall when inflation expectations increase.

We currently maintain neutral guidance on TIPS. We believe they can play a role in providing diversification to a fixed-income portfolio. However, we advise caution of potential return surprises, as TIPS indexes (as measured by the Bloomberg U.S. TIPS Index) are relatively long duration, which increases sensitivity to interest rate movements.

1. Bond market expectations of future inflation by using 1-year, 2-year, 5-year and 10-year U.S. breakeven inflation rates.

2. Moderated discussion featuring Federal Reserve Chair Jerome Powell, Harvard University, March 30, 2026.

## Real Assets

Ian Mikkelsen, CFA

Equity Sector Analyst, Energy

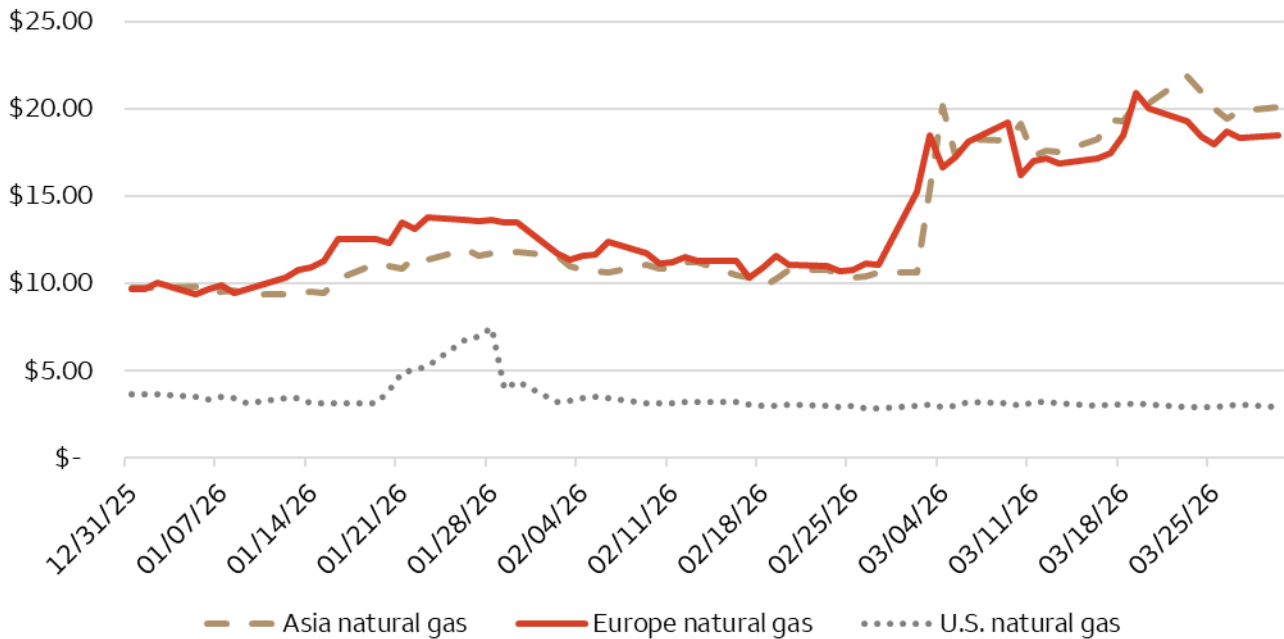
### Global LNG supply takes a hit

Among the various impacts to global supply chains from the Iran war, we believe that the disruption to global natural gas supplies could have a significant lasting impact on global markets. Qatar provides around 20% of global supplies of LNG, and Iran’s attack on the Ras Laffan industrial complex has impaired 17% of Qatar’s LNG production capacity for the next three-to-five years — representing a loss of approximately 3.5% of global LNG supply.

In addition to the capacity damaged by the attack, Qatar had already preemptively halted all of its LNG production over safety and shipping concerns, and it is expected to take six to nine months to fully revamp this production due to the complexities of the liquefaction process. In response to the attack, Qatar has notified buyers in Asia and Europe that it will not be able to fulfill some of its supply contracts.

The global LNG market is characterized by supply flexibility, as approximately 35%-40% of global LNG volumes are traded in the short-term spot market. We expect to see other global supplies shift to fill the gap in output from Qatar. However, this represents an inflationary risk to the economies of Asia and Europe which partially rely on imports of natural gas, as spot LNG volumes generally flow to wherever they can capture the best pricing. Fortunately, we expect U.S. natural gas prices to remain relatively insulated from this impact due to the regionally fragmented structure of the LNG market.

**Chart 4. Regional LNG benchmark prices**



Sources: Bloomberg and Wells Fargo Investment Institute. Data from December 31, 2025, through March 30, 2026. Asia natural gas is measured by the Platts JKM benchmark. Europe natural gas is measured by the Dutch TTF benchmark. U.S. natural gas is measured by the Henry Hub benchmark. MMBtu = One million British thermal units. JKM = Japan Korea Marker. TTF = Title Transfer Facility. LNG = Liquefied Natural Gas. **Past performance is no guarantee of future results.**

# Alternatives

**Chao Ma, PhD, CFA, FRM**

Global Portfolio and Investment Strategist

## Navigating Private Credit through diversification

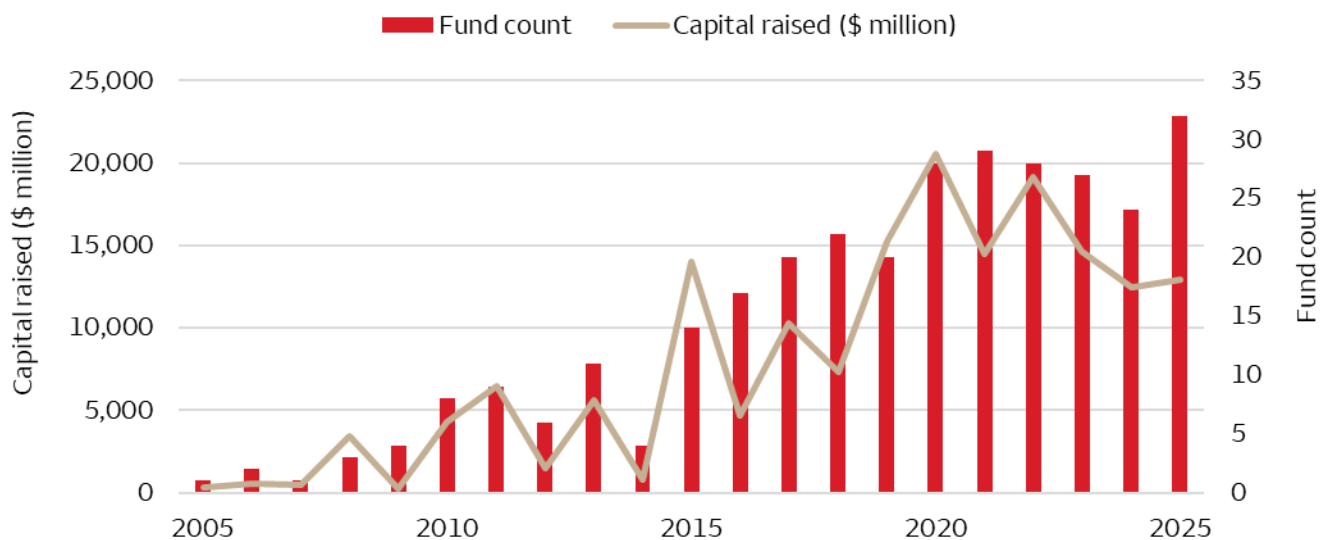
Since late last year, ongoing headlines around private credit have likely reflected a cautious market sentiment. While we maintain neutral guidance on private debt and believe the longer-term outlook remains constructive, we believe it is important to emphasize diversification given the near-term uncertainties. In our opinion, diversification has the potential to help mitigate idiosyncratic risks and enhance portfolio resilience as liquidity and credit conditions continue to evolve.

Within direct lending, qualified investors may consider diversifying across managers that focus on different borrower sizes. We believe combining these exposures may potentially help balance outcomes across varying economic environments. Investors may also wish to monitor industry concentration and avoid overly heavy exposure to a single sector.

Beyond diversification within direct lending, qualified investors may consider incorporating other private debt strategies that offer differentiated sources of risk and yield. One potential diversifier is private asset-based lending. This strategy focuses on loans secured by a variety of tangible or financial assets, such as real estate, consumer receivables, industrial equipment, aircraft, inventory, or intellectual property. Unlike direct lending, which primarily relies on borrower creditworthiness, incomes in asset-based lending are more closely tied to the performance and quality of the underlying assets<sup>3</sup>. Additionally, the asset collaterals may provide downside protection in the event of borrower defaults.<sup>3</sup> We observe continued growth in capital raised for the strategy over the past 20 years (see Chart 5), which likely reflects an investor’s interest.

However, asset-based lending involves unique risks in its complexity, which generally requires experience and knowledge to structure and manage the loans. Like other private debt strategies, it also features limited liquidity and transparency and should only be used for long-term qualified investors.

**Chart 5. Fundraising in asset-based lending has been growing over the past 20 years**



Sources: Preqin and Wells Fargo Investment Institute (WFII). Data as of December 31, 2025. **Past fundraising does not predict future results.**

**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.**

3. Preqin, “Strategy in focus: asset-backed lending,” August 6, 2025.

## Tactical guidance\*

### Cash Alternatives and Fixed Income

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

### Equities

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

### Real Assets

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

### Alternative Investments\*\*

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

Source: Wells Fargo Investment Institute, April 6, 2026. Please see Wells Fargo Investment Institute's Asset Allocation Strategy Report for more detailed, investable ideas in each asset group.

\*Tactical horizon is 6-18 months

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

### Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. **Treasury Inflation-Protected Securities (TIPS)** are subject to interest rate risk, especially when real interest rates rise. This may cause the underlying value of the bond to fluctuate more than other fixed income securities. TIPS have special tax consequences, generating phantom income on the “inflation compensation” component of the principal. A holder of TIPS may be required to report this income annually although no income related to “inflation compensation” is received until maturity. 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.

Asset allocation and diversification do not guarantee investment returns or eliminate risk of loss including in a declining market.

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. 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

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 U.S. TIPS Index is an unmanaged market index comprised of all U.S. Treasury Inflation-Protected Securities rated investment grade, have at least one year to final maturity, and at least \$500 million par amount outstanding.

Green Markets Fertilizer Price Index tracks prevailing wholesale market prices for key fertilizer products in the United States and, in some cases, major international markets.

Preqin Data – Preqin uses a variety of publicly available sources found in targeted online searches web crawlers using national language processing and machine learning, secondary sources (those authored by someone not directly involved in the deal or fund), news (largest source of information) and other online sources. Quality assurance uses preventive validations, corrective validations, and mutual reviews to ensure accuracy of data. Data is educational and illustrative purposes only and there are no guarantees as to accuracy of data or content.

Producer Price Index (PPI) is a family of indexes that measures the average change in selling prices received by domestic producers of goods and services over time.

An index is unmanaged and not available for direct investment.

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