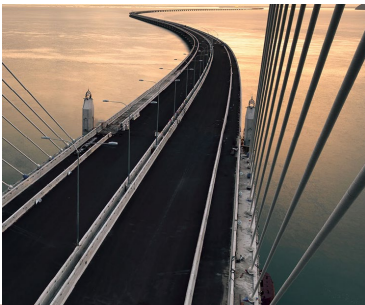


Investment Strategy



Weekly guidance from our Investment Strategy Committee

April 29, 2024

Alternatives Spotlight: Direct Lending strategies continued to shine2

- Direct Lending strategies have performed well and have garnered significant investor attention in recent quarters as defaults (or nonaccruals) remained low.
- We believe the income generated by Direct Lending strategies can potentially outweigh any future deterioration in credit quality, yet we intend to maintain our neutral guidance until the economic recovery is confirmed.

Equities: Ready to raise our Real Estate rating?4

- As of April 23, 2024, the S&P 500 Real Estate sector has underperformed the S&P 500 Index by nearly 40% since we initiated our unfavorable rating on March 10, 2022.
- With more attractive opportunities with the potential for growth and yield available elsewhere, we expect Real Estate to continue to underperform.

Fixed Income: Near-term direction of U.S. interest rates.....5

- As expectations for Federal Reserve (Fed) interest rate cuts have been scaled back, we believe the potential for interest rates to remain near current levels or to edge higher is increasing.
- We expect the yield curve to continue to flatten, influenced mostly by higher long-term yields.

Real Assets: Commodity bull super-cycle¹ remains intact.....6

- After a weak 2023, the survivability of the commodity bull super-cycle came into question.
- Evidence so far in 2024 suggests that the commodity bull super-cycle remains intact, positioning most commodity prices to move higher over the coming years, in our view.

Current tactical guidance7

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

1. Bull super cycles are an extended period of time, historically 15-20 years, where commodity prices move upward together.

Alternatives Spotlight

Mark Steffen, CFA, CAIA

Global Alternative Investment Strategist

Direct Lending strategies continued to shine

The Private Direct Lending market continued to attract qualified investor attention as yields remain elevated and default activity stayed in check. The market consists of directly originated loans to small and middle-market companies, often defined as those with annual revenues between \$5 million and \$1 billion. The bespoke loans are often floating rate, senior-secured obligations, meaning these investors will be first in line to recoup losses before any other debt holders in the case of default. Private direct loans have historically experienced lower loss rates to bank loans and high-yield bonds, with similar or better recovery rates in default situations². Private Direct Loans were once a market dominated by banks. However, private asset managers began to rapidly grow their direct lending business following the 2008 Great Financial Crisis when banks shed illiquid assets amid heightened regulatory oversight. Investor interest in Direct Lending strategies continued its upward trajectory as upper-single-digit to double-digit income has been generated from a combination of higher interest rates and up-front origination fees charged to borrowers, over the 10-calendar year period of 2014 to 2023². The floating-rate nature of direct private loans has also historically insulated investors from the detrimental effects of rising interest rates experienced by many fixed-rate bond investors in recent years. Moreover, many of these small and middle-market borrowers are owned by private equity firms, helping to provide an added layer of protection as the private equity sponsors are generally incentivized to mitigate risk their investment by ensuring the company's debt is repaid.

While we believe the growth in the industry over the past decade has been positive, the performance of Direct Lending strategies over time has increased category's appeal. Direct loans have outperformed high-yield bonds, bank loans, and the Bloomberg U.S. Aggregate Bond Index in 6 of the past 10 calendar years (see chart 1). In addition, the private loans are generally valued on a quarterly basis and have exhibited much less volatility than their public high-yield bond and bank loan counterparts, over the 10 year period noted in chart 1.

While Direct Lending strategies were not directly impacted by rise in interest rates in recent years, the borrowers that consist of small to mid-sized businesses were subject to higher interest payments as the loan terms were continually reset higher. Thus far, most businesses have been able to navigate new higher interest rate regime with minimal impact³. Yet, it is our view that many over-leveraged businesses are unable to pass along rising costs to their consumers are hopeful that future interest rate cuts remain in the Fed's near-term plan. Although traditional default rates imply that business fundamentals may be improving, several underlying trends suggest that cross currents may be hidden just below the surface⁴. Companies are increasingly attempting to restructure their debt prior to default or convert to payment-in-kind (PIK) loans^{2,3}. Converting to a PIK loan allows the borrowers to pay interest in the form of non-cash principal, thereby increasing the principal amount of the loan. While cash-saving tools such as PIK loans may buy time in the hope that lower rates lie ahead, we continue to monitor activity that may highlight further deterioration (or improvement) in borrower creditworthiness. Yet, even if defaults (or nonaccruals) increase from the current low levels, we believe the potential for outsized yields generated by Direct

2. Cliffwater 2023 Q4 (fourth quarter) Report on US Direct Lending.

3. Pitchbook | LCD.

4. Traditional default rates generally exclude the use of liability management transactions, often termed distressed exchanges. These deals include a variety of transactions including buybacks, tender offers, and exchange offers where the goal is to improve the overall liquidity profile and financial health of the company, while avoiding the traditional bankruptcy path. Distressed exchanges may include several types of restructurings aimed at reducing debt, extending maturities, or reducing regular debt service payments. Pitchbook | LCD provides data that includes these distressed exchange transactions.

Lending can potentially offset any moderate rise in stress that may occur. Identifying direct lenders that have a robust pipeline, as well as the specialized knowledge and skill to properly underwrite, structure, and monitor deals is critical to avoiding any potential uptick in stress that may occur in the private credit markets.

Chart 1. Calendar year performance of private and public credit categories

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10-Year Annualized Return
Direct Lending 9.57%	Direct Lending 5.54%	High Yield 17.14%	Direct Lending 8.62%	Direct Lending 8.07%	High Yield 14.2%	U.S. Agg 7.51%	Direct Lending 12.78%	Direct Lending 6.29%	High Yield 13.45%	Direct Lending 8.84%
U.S. Agg 5.94%	U.S. Agg 0.57%	Direct Lending 11.24%	High Yield 7.5%	U.S. Bank Loans 0.46%	Direct Lending 9%	High Yield 7.11%	High Yield 5.28%	U.S. Bank Loans -0.77%	U.S. Bank Loans 13.32%	High Yield 4.59%
High Yield 2.46%	U.S. Bank Loans -0.7%	U.S. Bank Loans 10.11%	U.S. Bank Loans 4.14%	U.S. Agg 0.02%	U.S. Agg 8.73%	Direct Lending 5.45%	U.S. Bank Loans 5.2%	High Yield -11.19%	Direct Lending 12.13%	U.S. Bank Loans 4.41%
U.S. Bank Loans 1.59%	High Yield -4.46%	U.S. Agg 2.66%	U.S. Agg 3.55%	High Yield -2.08%	U.S. Bank Loans 8.65%	U.S. Bank Loans 3.12%	U.S. Agg -1.54%	U.S. Agg -13.01%	U.S. Agg 5.53%	U.S. Agg 1.81%

Sources: Cliffwater LLC and Wells Fargo Investment Institute. Data from 2014 to 2023. Direct Lending represented by the Cliffwater Direct Lending Index (CDLI), High Yield represented by the Bloomberg U.S. Corporate High Yield Index, U.S. Bank Loans represented by the Morningstar LSTA U.S. Leveraged Loan Index, and the U.S. Agg represents the Bloomberg U.S. Aggregate Bond Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of 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.

Our view

Private Debt – Direct Lending strategies have historically proven to be a source of income for qualified investors. We believe an allocation to Direct Lending has the potential to benefit long-term, qualified investors and offer diversification. However, we maintain our neutral guidance on the category given the risks that remain in the macro-outlook. The uncertainty around the future path of inflation and interest rates and their potential impact on small and mid-sized businesses remains a concern. We expect to upgrade the Private Debt Direct Lending category if risks fade and confirmation that a gradual recovery phase is underway, as we expect.

Equities

"Every day is a journey, and the journey itself is home." — Matsuo Chuemon Munefusa

Austin Pickle, CFA

Investment Strategy Analyst

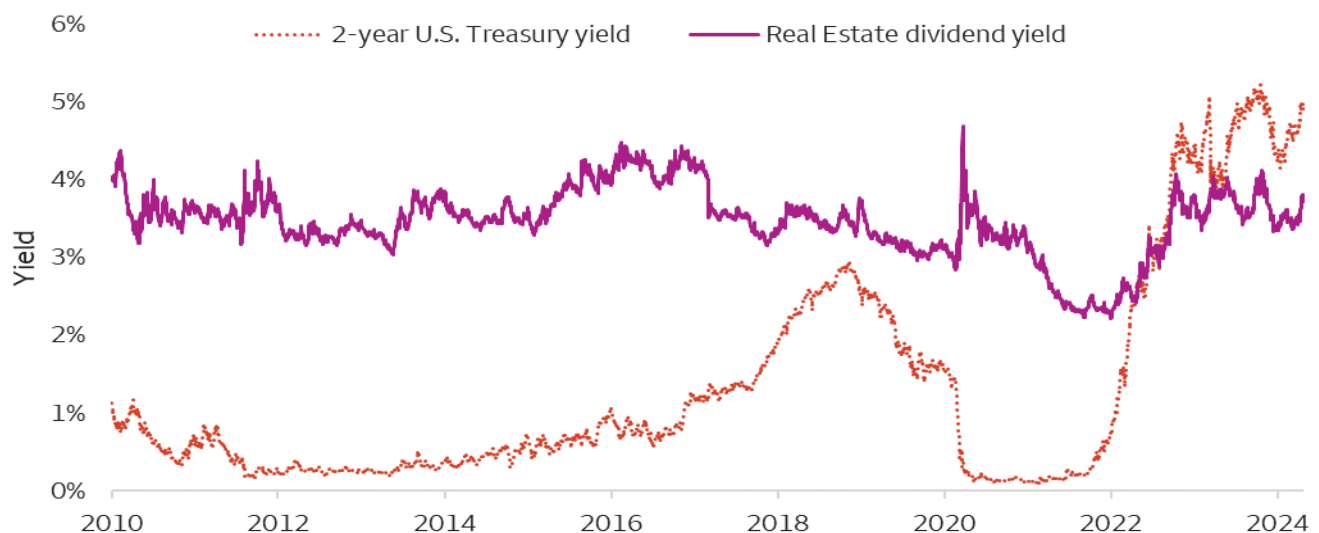
Ready to raise our Real Estate rating?

Our current unfavorable rating on the S&P 500 Real Estate sector was initiated back on March 10, 2022. Since then, the Real Estate sector has underperformed the S&P 500 Index by nearly 40%. With such a strong move do we believe now is the time to cut and run with our alpha⁵ and upgrade Real Estate? Not yet.

In our view, there are some common characteristics across this varied sector that will likely weigh on performance. Investors historically have looked to Real Estate for yield with potential for a bit of cyclical growth kicker. Unfortunately for Real Estate, we see the potential for more attractive opportunities elsewhere for each of those factors. Tight and expensive bank credit, which real estate companies rely on to fund new projects, has constrained growth for the sector. Meanwhile, we believe there are more visible growth stories in neutral-rated Information Technology and Communication Services (anyone heard of artificial intelligence?) as well as our favorable-rated Energy, Industrials, and Materials sectors (large fiscal spending programs and higher forecasted oil prices). Additionally, fixed-income investments now offer a greater yield (see chart below) without the increased risk of loss in Real Estate equities. Finally, while not a significant weight in the sector, we suspect that the ongoing highly visible issues within Office Real Estate will likely continue to weigh on broad sector sentiment.

With more attractive opportunities with the potential for growth and yield available elsewhere, what does Real Estate offer that could bring back investors en masse? In our view, not enough to warrant an upgrade.

Which income source would you choose today?



Sources: Bloomberg, Wells Fargo Investment Institute. Daily Data: January 1, 2010 – April 23, 2024. The S&P 500 Index Real Estate sector inception date was 2016. Dividend yield prior to 2016 estimated using the FTSE NAREIT All Equity REITs Index dividend yield. An index is unmanaged and not available for direct investment.

Past performance is no guarantee of future results.

5. Alpha is the outperformance earned above the benchmark for favorable-rated investments or the underperformance earned less than the benchmark for unfavorable-rated investments.

Fixed Income

Luis Alvarado

Global Fixed Income Strategist

Near-term direction of U.S. interest rates

Will 10-year U.S. Treasury yields climb back to 5%? As expectations for Fed interest rate cuts have been scaled back, we believe the potential for interest rates to remain near current levels or to edge higher is increasing. Still, the question above may be best addressed by looking at two components — our outlook for the federal funds target interest rate and our outlook for longer-term 10-year U.S. Treasury yields.

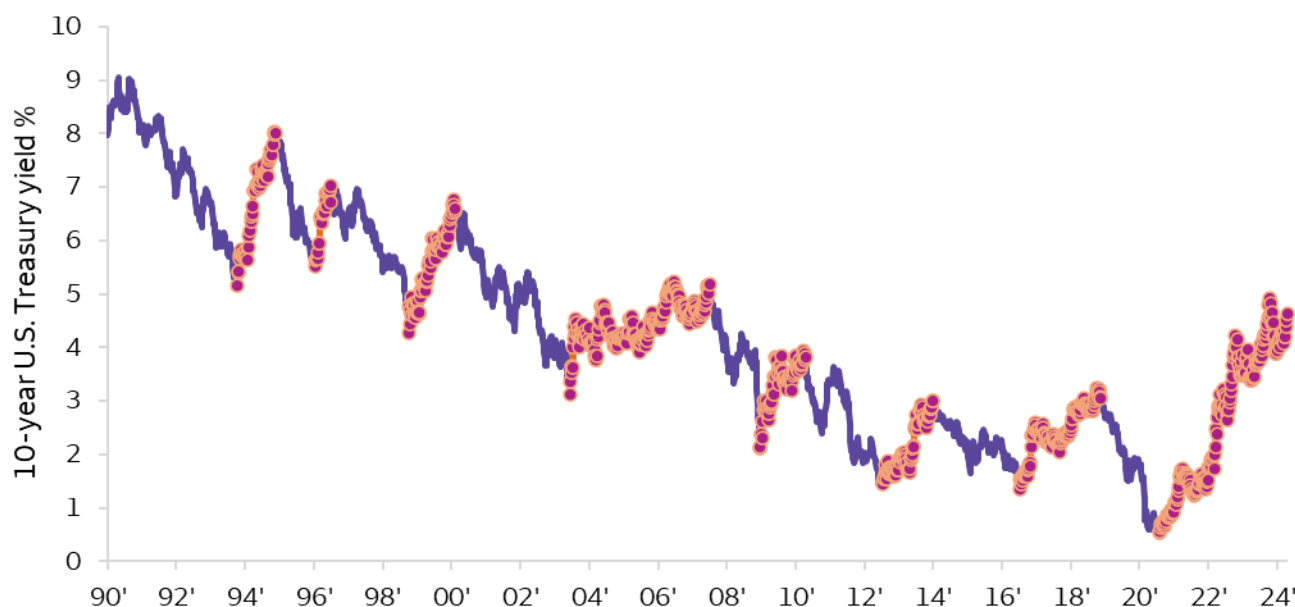
Federal funds target rate

Our current view is that the Fed will attempt to cut rates twice before year-end; however, the probability for the federal funds rate to remain on hold at current levels has increased as inflation remains sticky. At the March Federal Open Market Committee (FOMC) meeting, members projected the median federal funds rate would be 4.625% by year-end 2024 — suggesting a strong downward bias in rates. However, over the past six weeks Fed officials have implicitly “walked back” some of those estimates, recognizing that it will take a while for them to be able to act. The next Fed meeting ending on May 1 is already considered to be a nonstarter.

Long-term rates

We expect the yield curve to continue to flatten, influenced mostly by higher long-term yields. Some of the reasons why we could see 10-year U.S. Treasury yields climb toward 5% is if the Fed openly removes rate cut expectations or outright hikes, if inflation climbs higher or real gross domestic product growth increases or if the U.S. fiscal situation deteriorates, causing demand to weaken just as supply of Treasuries increases.

Bias is for higher-for-longer



Sources: Wells Fargo Investment Institute and Bloomberg, as of April 19, 2024. Weekly data from January 2, 1990, to April 19, 2024. Rising yield periods highlighted in orange and pink dotted areas. **Past performance is no guarantee of future results.**

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Real Assets

Mason Mendez

Investment Strategy Analyst

John LaForge

Head of Real Asset Strategy

Commodity bull super-cycle remains intact

We often think of commodities in individual terms, not as a collective family. Thinking of them individually makes sense, after all, each commodity has its own specific supply and demand fundamentals. For example, crude oil and gold are neither consumed nor supplied in the same manner. Crude oil is burned and consumed quickly, its supply in constant need of replacement. Gold, though, does not need its supply to be replaced so quickly. In fact, the supply never shrinks and perpetually grows over time. Gold is impervious to both air and water, meaning that nearly every ounce of gold ever mined, still sits somewhere above ground today.

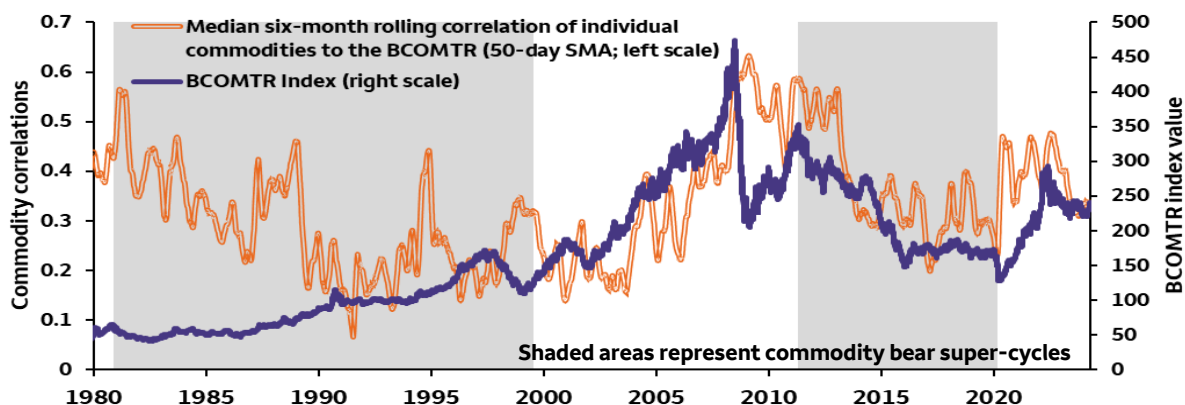
Because individual commodities are fundamentally different, their price movements are often different too, especially over the short term. Over the long run, though, history tells us there have been periods when commodity prices trended more closely, moving as what we like to call a commodity family. These periods are called commodity bull super-cycles, and as the name implies, they many of these time periods have been positive for commodity prices.

One way to see this “family” connection is the chart below. The blue line represents the Bloomberg Commodity Total Return (BCOMTR) Index, made up of 19 commodities. The dashed orange line tracks the price correlation between these commodities. A rising correlation means that individual commodity prices are increasingly moving more like a family (bull super-cycles), while a falling correlation reflects the opposite. We believe the main messages in this chart are found by following the long-term trends, not the shorter-term wiggles. The long-term trend that we are in today, the bull super-cycle, started around March 2020.

We are highlighting this chart, however, because of what has happened over the short term. Commodity prices, and the family connection, were generally weak in 2023, which had some wondering if the bull super-cycle had run its course. Our answer has consistently been “no, we doubt it”. Firstly, price pauses like 2023 are common during bulls. Secondly, our current bull is only four years old, while the shortest bull on record, using data back to the year 1800, is nine years. And lastly, short-term evidence has started to emerge that the commodity family connection has started growing again. Two examples of this are that 61% of commodities are positive in 2024, and more than 50% are above their 200-day moving averages.

Therefore, we believe the commodity bull super-cycle remains intact, and prices appear set to move higher over the coming years.

Commodity correlations



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data is from January 3, 1979 – April 23, 2024. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

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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, April 29, 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. **Growth stocks** may be more volatile than other stocks and there is no guarantee growth will be realized. **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. 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. 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.

Floating rate loans are generally considered to have speculative characteristics that involve default risk of principal and interest, collateral impairment, borrower industry concentration, and limited liquidity.

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.

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 Commodity Total Return Index reflects the returns that are potentially available through an unleveraged investment in the futures contracts on 19 physical commodities comprising the Index plus the rate of interest that could be earned on cash collateral invested in specified Treasury Bills. The Index is a rolling index rebalancing annually.

Bloomberg U.S. Corporate High Yield Index covers the universe of fixed-rate, noninvestment-grade debt.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Cliffwater Direct Lending Index (the "CDLI") seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. Cliffwater believes that the CDLI is representative of the direct lending asset class. Any information presented prior to the Launch Date of the CDLI (September 30, 2015) is back-tested. Back-tested performance is not actual performance but is hypothetical. The back-tested calculations are based on the same methodology that was in effect when the CDLI was officially launched. Please refer to the methodology paper for the CDLI (available at www.CliffwaterDirectLendingIndex.com) for more details about the CDLI, including the Base Date/Value (September 30, 2004, at 1,000) and the Launch Date of the CDLI and the manner in which the CDLI is reconstituted and the eligibility criteria for the CDLI.

FTSE NAREIT All Equity REITs Index, a subset of the All REITs Index, is designed to track the performance of REITs representing equity interests in (as opposed to mortgages on) properties. It represents all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets, other than mortgages secured by real property that also meet minimum size and liquidity criteria.

FTSE NAREIT All REITs Index includes all REITs that are listed on NYSE, American Stock Exchange or NASDAQ. This includes mortgage REITs, Timber REITs, Infrastructure REITs, and Manufactured Housing REITs. It is the most expansive of all the FTSE REIT indices.

Morningstar LSTA US Leveraged Loan Index is a market-value weighted index designed to measure the performance of the US leveraged loan market

S&P 500 Real Estate Index comprises those companies included in the S&P 500 that are classified as members of the GICS Real Estate sector.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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