

Investment Strategy

Weekly guidance from our Investment Strategy Committee May 4, 2026

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

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

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

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

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

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

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

Current tactical guidance 7

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

Equities Spotlight

Douglas Beath

Global Investment Strategist

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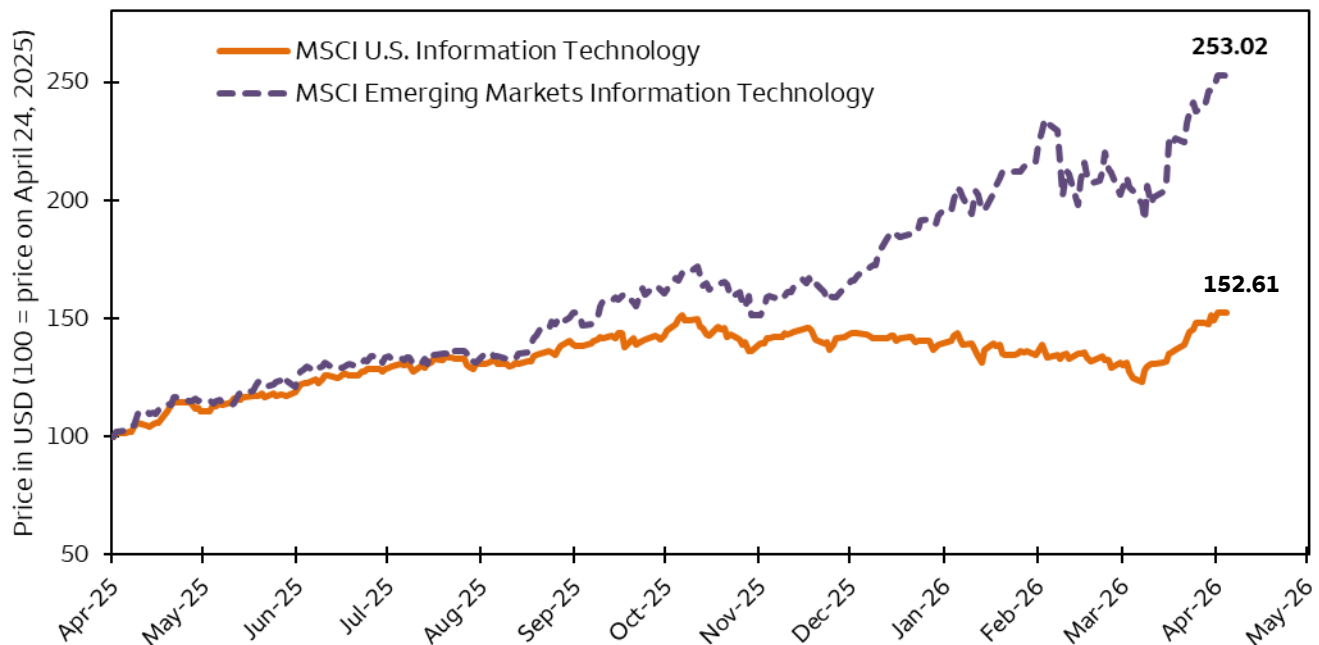
Investment Strategy Analyst

Resiliency of Emerging Market Equities

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

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

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



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

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

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

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

Developing country foresight

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

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

EM technology sector

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

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

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

What it means for investors

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

Fixed Income

Brendan O'Sullivan

Municipal Analyst

Finding value in community college credit

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

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

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

Real Assets

John Sheehan, CFA

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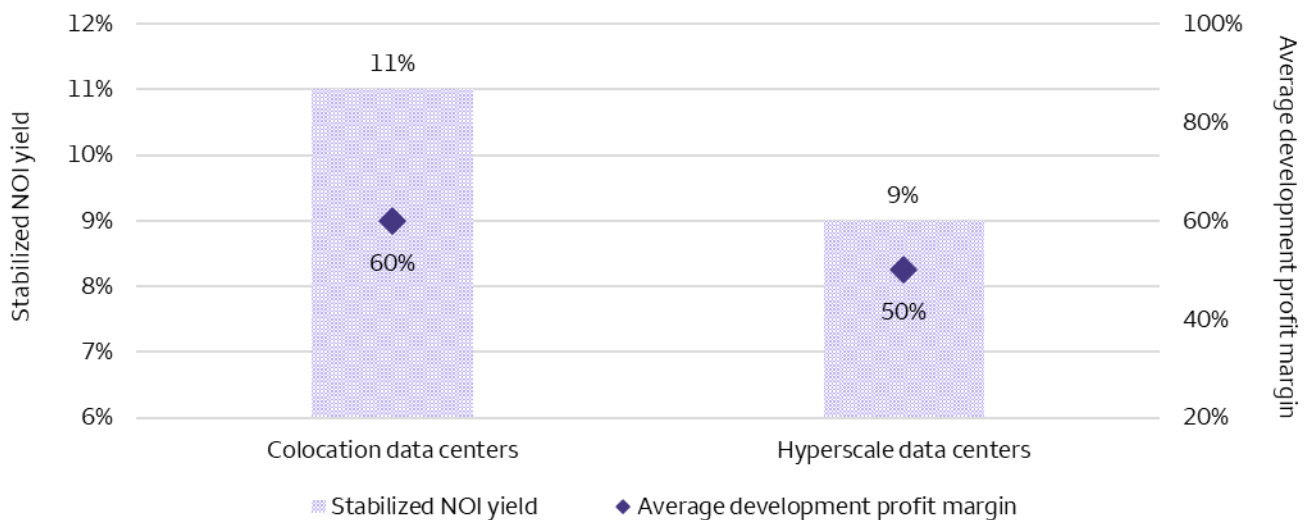
Data-center REITs offer exposure to AI theme

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

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

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

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



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

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

Alternatives

Chao Ma, PhD, CFA, FRM

Global Portfolio and Investment Strategist

Digital infrastructure saw rapid growth amid challenge

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

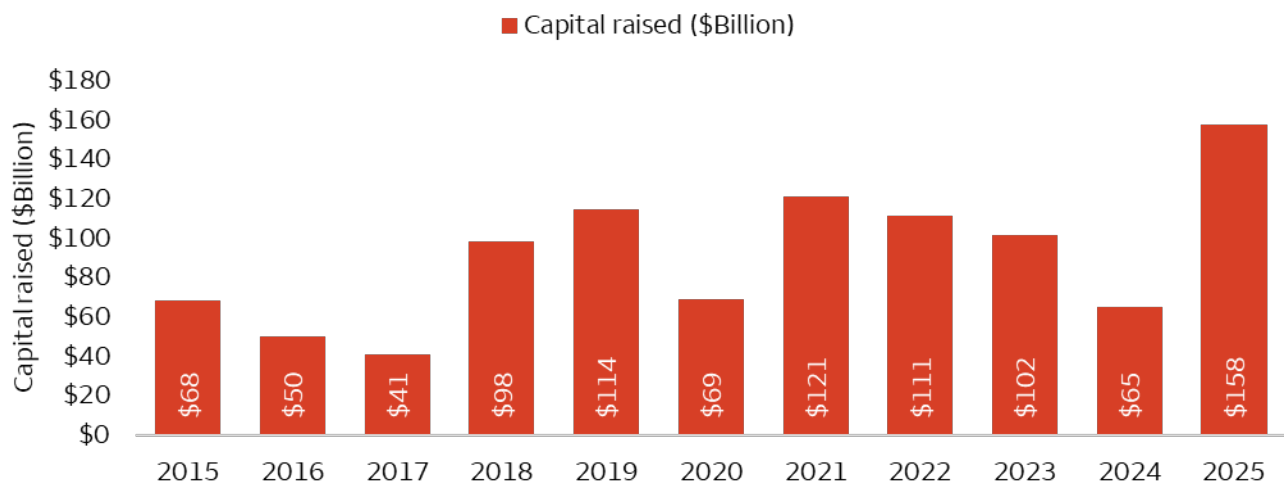
We believe the strong investor interest has been supported by expectations that AI and cloud computing could drive increased data usage, productivity gains, and sustained demand for digital capacity. While we expect these structural tailwinds to support the long-term growth of digital infrastructure,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

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

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

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

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



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

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

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

Tactical guidance*

Cash Alternatives and Fixed Income

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

Equities

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

Real Assets

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

Alternative Investments**

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

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

*Tactical horizon is 6-18 months

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

Risk considerations

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

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

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

Definitions

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

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

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

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

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

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

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

An index is unmanaged and not available for direct investment.

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