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Brian Rehling, CFA

Co-Head of Global Fixed Income Strategy

Mason Mendez

Investment Strategy Analyst

Non-fungible tokens (NFTs) — What investors need to know

Key takeaways

- Non-fungible tokens, or NFTs, are one of the many ways that tokenization is being used to drive broader digital asset adoption and can represent ownership of unique physical or digital assets.
- NFTs are becoming popular for their use in digital artwork and collectible markets. However, they are not limited to artwork and can be potentially used to enhance real-world processes including supply chain tracking, property titles, credential verification, or event ticket management.

What is an NFT?

Non-fungible tokens, or NFTs, are one of the many ways that tokenization¹ is being used to further drive broader digital asset adoption. Similar to the concept of tokenization, NFTs can represent the ownership of physical or digital assets that are transferred and stored on blockchains.²

NFTs are a specific type of token and are different in the sense that they are non-fungible, meaning they are unique and cannot be replaced. Each one provides its owner with digital ownership of an asset. NFTs are not limited to digital items either, they can be linked to physical objects such as artwork, collectibles, or even real estate.

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

1. "Tokenization – What investors need to know," Wells Fargo Investment Institute, January 21, 2026.

2. Blockchains are decentralized ledgers secured by cryptography that record transactions across a network of computers in a secure and transparent manner. For a complete introduction please see Wells Fargo Investment Institute's report, "Blockchain technology basics," November 13, 2025.

What is fungibility?

Fungibility simply means that an item can be swapped for another identical item. Currencies, commodities, and other cryptocurrencies (such as bitcoin) are all fungible since each unit is essentially the same. This fungibility helps remove friction when buying or selling, as they are no different from one another. For example, when you buy a \$5 cup of coffee, the barista doesn't care which specific \$5 bill you hand over and does not check where it came from or who owned it before. All that matters is that \$5 equals \$5. Every \$5 bill is treated the same — this is what makes it fungible.

However, fungible items are not ideal for representing things that are unique, like a house, a piece of art, or a collectible. Owners of these items care about what makes them unique as well as their authenticity, and this is where NFTs come into play. NFTs can be linked to either digital or real-world assets to help enhance the transfer and verifiability of them, as we will explain below.

So they are unique, but what is the benefit?

NFTs can be used to provide a secure and transparent way to prove unique ownership of a digital or physical asset and transfer its ownership digitally— without relying on an intermediary. Because NFTs rely on blockchain technology, details about the NFT and its ownership history are recorded permanently and can be easily viewed by anyone

The potential security benefits have led to NFTs becoming popular in art and collectable markets, as they can act as a digital record of authenticity and ownership. This digital record can be viewed by anyone and used to verify its authenticity, which has the potential to help prevent copies of the underlying asset from being passed off as the original. For example, if an artist creates a digital or physical painting, that painting could be duplicated and shared publicly. For the owner, proving which version is original and which is a copy can be a challenge.

NFTs help to address this problem by linking the original artwork to a unique digital token stored on a blockchain. Once deployed on the blockchain, the token effectively represents a tamper proof record of who owns the original piece. As a refresher, blockchains are a simple, yet, powerful way to keep records digitally. They package information in blocks which are cryptographically linked to one another, creating an interlinked chain of information that cannot be altered without immense computational power needed to re-write the entire chain.³ So even if the image is copied, you can always check the blockchain to see which digital wallet owns the original NFT. In a way, the NFT works like a permanent, certificate of authenticity linked to the artwork.

Applications of NFTs in the real world

While NFTs have gained popularity for their use in the buying and selling of digital artwork, they are not limited to just art. NFTs can be applied to other real-world use cases including concert tickets, supply chain tracking, property titles, and even verifying a person's credentials or identity.

For example, instead of giving people physical tickets or barcodes, event organizers can sell NFT tickets that are stored in someone's digital wallet. Details such as the specific seat number and event perks can be coded into each NFT. Unlike regular tickets, which can be copied or faked, NFTs are unique, easy to verify, and cannot be changed once created. When a person arrives at an event, staff would only need to check that the NFT in the person's wallet matches the ticket that was sold. Organizers can build rules into an NFT ticket such as limits on resale prices or royalty fees, or specific time windows for reselling. These rules could help reduce ticket scalping and keep prices

³ "Blockchain technology basics", Wells Fargo Investment Institute. November 13, 2025.
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fair. Additionally, because NFTs use blockchain technology, organizers can see helpful information such as how many times a ticket was resold, who resold it, and at what price. This gives them valuable insights that would be harder to collect with traditional tickets.

NFTs are becoming more popular among luxury goods, as the ability to link physical luxury goods to an NFT representing an irrefutable digital certificate of authenticity and ownership has the potential to combat counterfeiting. Additionally, some producers of luxury goods are further enhancing the experience by tying in special benefits, such as granting access to community events or exclusive products.⁴

How are NFTs created and held?

To create a NFT an asset owner partners with a technology platform to link the underlying asset to a digital token that can be traded and stored on a blockchain.⁵ Information such as who created the asset, when it was created, and other unique identifiers can be coded into the token so that it can be verified for authenticity. For physical assets, such as a luxury bag, a serial number or QR code can be used to link the asset to the digital token. While for a digital good, the token can be linked to the underlying asset via a URL or other method of storing data files digitally. Once this information is coded, and the NFT is deployed on the blockchain it cannot be changed. From here, the NFT can be bought or sold on digital marketplaces and stored in a digital wallet, and its authenticity can be verified on the blockchain by anyone.

If the NFT is resold to another buyer, the NFT can be transferred over the blockchain to the new owner's digital wallet. In effect, this creates a permanent and public record where ownership can be traced throughout the NFT's lifetime. Upon the transfer of the NFT, delivery of the underlying asset itself can vary based on the arrangement for how the asset is stored. For physical assets, holders of the NFT can opt to store the asset themselves or use a trusted third party to store the underlying asset and transfer it to the new owner.

Due to NFTs utilizing blockchains, purchasers can verify the NFT's authenticity either by checking the blockchain directly or by verifying the unique identifier linked to the physical good — whether it be a QR code or other identifier. Similar to the ticket example used earlier, purchasers can verify that the NFT held by the seller's digital wallet is indeed authentic, preventing fakes or duplicates from being passed off as the original. In effect, this process can enhance trust between buyers and sellers as authenticity can be publicly verified. Additionally, knowing that the asset is authentic has the potential to reduce doubts of legitimacy and can support resale values

Risks

NFTs and tokenization have the potential to enhance many real-world processes by providing a transparent, tamper-resistant method to track ownership and authenticity and transfer asset rights — potentially reducing fraud and reliance on intermediaries. However, there are risks that investors should be aware of. Given that NFTs often represent the ownership of illiquid assets, such as collectibles, NFTs as a result are also often illiquid. Digital marketplaces can provide platforms to buy and sell NFTs, but finding a buyer often takes time, and the perceived value can change drastically between users.

Additionally, it is important to note that not all NFTs grant the purchaser full ownership rights to the underlying asset, unless explicitly stated through legally binding contracts. For example, purchasing an NFT of a digital artwork collection may give the purchaser rights to buy or sell the artwork or display it. However, the artist can retain the

4. "What are luxury NFTs?" OpenSea, September 8, 2023.

5. "A complete guide to minting NFTs," The Motley Fool, September 6, 2024.

copyright, preventing the purchaser from using the artwork commercially. Therefore, it is prudent for investors to understand these risks and do their proper due diligence for the specific NFT that they own.

Lastly, NFTs have been known to be a highly speculative sub-group of digital assets prone to high volatility. As a result of speculation, there are times when an NFT's value can diverge significantly from its underlying asset. Additionally, NFTs can be traded across numerous digital marketplaces. This can give rise to price disparities among similar projects, reduce liquidity in a given marketplace, and cloud an NFT's fair value. Social and marketing efforts have been common drivers of NFT speculation, as the "hype" or social inclusivity around certain projects can lead to periods of rapidly inflating and eventually deflating prices. This speculation and social "hype" gave rise to instances of market manipulation and numerous pump and dump schemes, resulting in significant losses for a majority of investors.

The future of NFTs

In our view, NFTs are another tool that can be used to broaden the capabilities of tokenization and blockchain technology. By utilizing blockchains, NFTs provide a secure and tamper-proof way to track unique asset ownership, transfer rights, and verify its authenticity. While today NFTs are more popular in art and collectible markets, they have the potential to streamline real-world processes related to events, supply chain tracking, property titles, and even a person's credentials. That said, investors need to be aware of the speculative and illiquid risks associated with the broader NFT market as well as the intricacies of what the specific token represents (full or partial ownership rights).

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