

Investment Strategy

Weekly guidance from our Investment Strategy Committee **March 16, 2026**

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- Oil prices spiked close to \$120 per barrel in response to the escalating conflict in the Middle East and disruptions in the Strait of Hormuz.
- We recognize the risk of near-term volatility in oil prices. However, we expect mounting supply headwinds through year end to be a strong headwind for prices.

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- Aerospace & Defense tends to become most topical during periods of geopolitical stress such as the current war in Iran.
- We would impress upon investors that we value the group’s long-dated visibility in both commercial and defense markets, with industry backlog currently in excess of \$1.6 trillion according to FactSet and company reports..

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- We believe the U.S. dollar’s (USD’s) strength during the Iran war has been driven by investors seeking perceived safe-haven assets as well as by higher oil prices, which could potentially slow the Federal Reserve’s (Fed’s) plans to cut interest rates.
- We expect this U.S. dollar strength to be temporary. If tensions fade, the U.S. dollar will likely weaken modestly from today’s levels.

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- Private capital will likely play a critical role in rebuilding U.S. military stockpiles, especially as we believe elevated demand may persist for several quarters or even years.
- Our expectations of a return of strategic corporate buyers may signal a healthier environment for private equity investment demand and potential for improved returns overall.

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Real Assets Spotlight

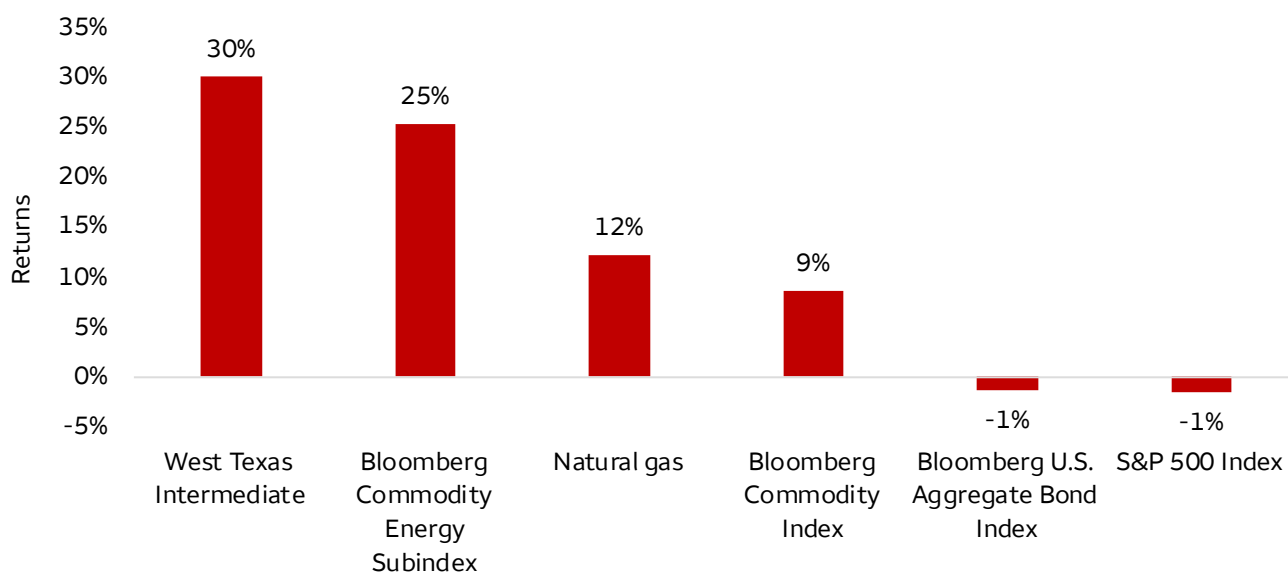
Mason Mendez

Investment Strategy Analyst

Unpacking oil’s recent volatility and the potential path ahead

Following the U.S. and Israeli strikes on Iranian military and government targets on February 28, West Texas Intermediate (WTI) oil prices surged to an intraday peak of \$119 per barrel on March 9. As a result, the Bloomberg Commodity Energy Subindex’s outperformance strengthened against the broader Bloomberg Commodity Index, and it is also outperforming U.S. large-cap equities and U.S. bonds (see chart below).¹

Chart 1. Energy commodities have outperformed other assets since the Iran war began



Sources: Bloomberg and Wells Fargo Investment Institute Data as of March 11, 2026. Daily data is from February 27, 2026 – March 11, 2026. Natural gas = front month natural gas future. An index is not managed and not available for direct investment. **Past performance is not a guarantee of future results.**

In the near term, we recognize the risk for elevated oil prices and volatility as the conflict persists. In our view, there are two main risks that investors should be aware of, which could help dictate the path of oil prices over the coming weeks:

1) Disruptions in the Strait of Hormuz: The Strait of Hormuz is a key trade route for global energy markets, facilitating roughly 20% of global oil supply and liquified natural gas. Since the conflict began, trade in the region has effectively halted. The reluctance for ship operators to move through the region is the primary concern. Some producers, such as Saudi Arabia, have the option to utilize alternative routes for moving exports. This could help keep some supply flowing, but at a reduced capacity relative to normal export volumes. The bottom line is that the Strait remains a key chokepoint for the global oil trade, and shipments will likely need to normalize before prices begin to ease meaningfully.

2) Potential production shut-ins from a prolonged conflict: The risk of potential shut-ins from producers in the region is a growing risk as the conflict drags on, especially considering that the OPEC+² members with the most spare production capacity are being impacted by the conflict. As ships anchor outside the Strait of Hormuz, producers are forced to fill storage rather than exporting. Notably, some estimates show that Iraq has already shut-

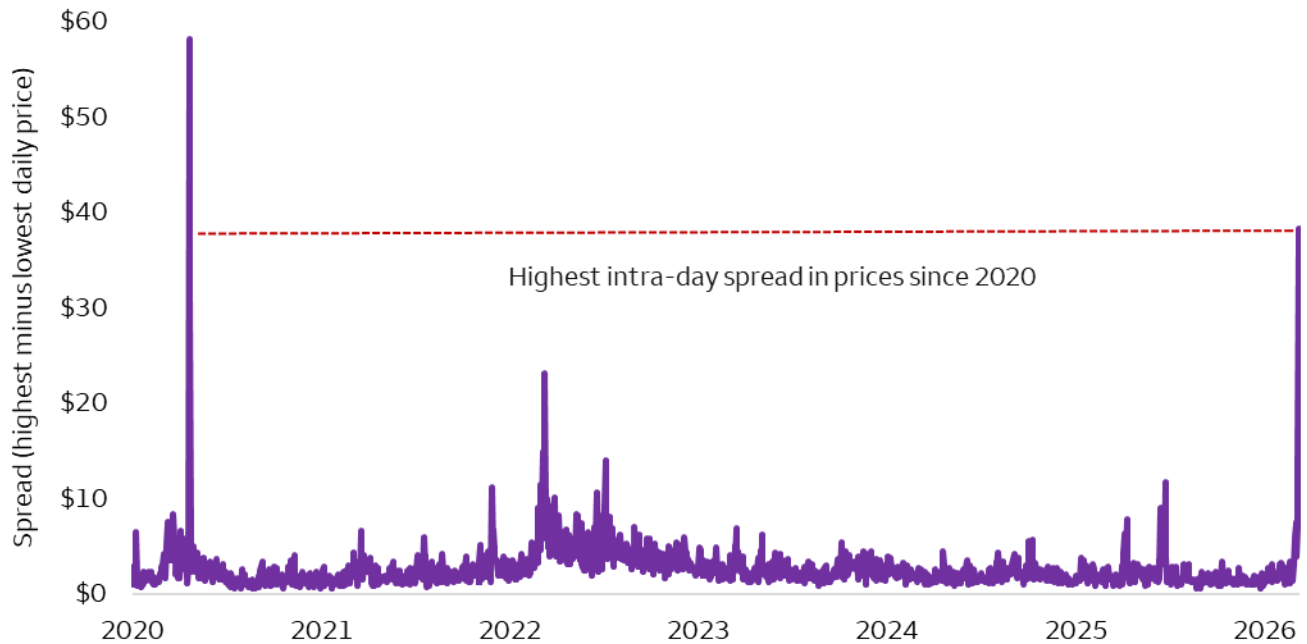
1. U.S. large-cap equities represented by the S&P 500 Index and U.S. bonds represented by the Bloomberg U.S. Aggregate Bond Index.

2. Organization of the Petroleum Exporting Countries and other allied oil-producing countries.

in roughly 60% – 70% of its normal production.³ While the remaining Gulf states are not in as dire of a storage situation as Iraq, stresses could build the longer the conflict drags on.

These concerns combined with more positive rhetoric from the Trump administration have led to significant volatility in oil prices. The chart below highlights this volatility and shows that the spread between the highest daily price and lowest daily price spiked to the highest level since COVID-19.

Chart 2. Oil price volatility spiked to highest level since COVID-19



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data is from WTI front month futures January 1, 2020 – March 9, 2026. **Past performance is not a guarantee of future results.**

Looking ahead, we suspect that heightened volatility in oil prices will likely continue as investors weigh near-term geopolitical risks against evolving rhetoric as well as expectations for global oversupply headwinds to mount through year end.

Specifically, we see headwinds in OPEC+’s plans to unwind roughly 1.2 million barrels per day (mbpd) of cuts through year end, with another tranche of 2 mbpd in existing cuts that can be reversed still on the table. Additionally, efficiencies drove U.S. production to new highs late last year. After months of weak sentiment and pricing among shale producers, we believe a prolonged spike in oil prices could incentivize more robust U.S. production growth, which would be a headwind for prices. Lastly, the International Energy Agency’s decision to release 400 million barrels could alleviate near-term supply concerns. The timing is still uncertain, however, initial reports on the release did help bring oil prices down significantly from their intraday peak.

The bottom line is that we recognize the likelihood for oil prices to be volatile and remain elevated as the conflict and disruptions in the Strait of Hormuz persist. That said, the recent spike in prices is at odds with fundamentals, which point to ample global supply growth and an easing of prices over the tactical horizon (6 – 18 months). Therefore, at these price levels, we see further risks to the downside rather than to the upside. We would use the bounce in Energy and Commodities as an opportunity to consider trimming allocations back to neutral weights in favor of equities, where we see a stronger outlook for outperformance through year end. With respect to commodity sectors, we would consider rotating out of Energy into Precious and Industrial Metals. Equity sector opportunities include rotating out of the S&P 500 Energy sector into Financials, Industrials, and Utilities.

3. Oilprice.com. ‘Iran to Hold Oil Output Near 1.4 Million Bpd as War Strangles Exports’. March 12, 2026. UK.finance.yahoo.com. ‘Iran oil output plunges about 0% as Iran war blocks tankers, Bloomberg reports’. March 8, 2026.

Equities

Lawrence Pfeffer, CFA

Equity Sector Analyst

Highlighting Aerospace & Defense fundamentals

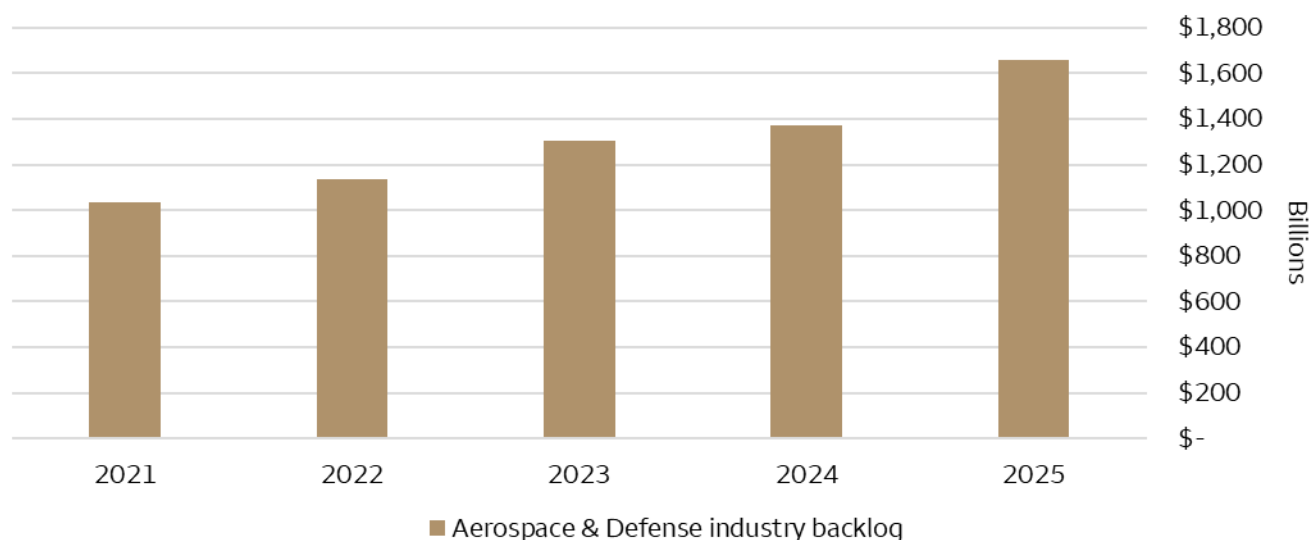
Just since the beginning of 2026, three leading defense contractors have announced sizeable multi-year contracts with the Department of War for various missile families, with production slated to grow by a factor of two to five times current levels for a number of key programs by the end of the decade.⁴

It is key to point out that this occurred before the Iran war, which is likely to see the U.S., Israel, and Gulf Cooperation Council (GCC) countries expend significant amounts of interceptormunitions. We view the ongoing strategic takeaway from conflicts in Ukraine and the Middle East as having reinforced the importance of missile defense, providing visibility for potential growth beyond recent contract extensions as well as incremental opportunities for foreign sales.

On the commercial side, we would remind investors that the two largest aircraft producers in the world have over 7 and 12 years respectively of backlog at forecasted consensus 2026 revenue run rates.⁵ These levels remain above pre-pandemic norms due to persistent challenges in ramping the aerospace industry supply chain and strong secular demand growth in travel. We expect total airframe production to accelerate in the coming years if supply conditions improve further, while we also believe aftermarket demand will remain robust due to a tight aircraft supply backdrop.

We reiterate our favorable view on Aerospace & Defense and would note that while this group’s historical earnings stability during periods of geopolitical conflicts can be viewed valuable attribute in a tactical sense, what we most value is the visibility provided by high levels of backlog that are in turn driven by what we believe to be secular demand drivers in global military spending, travel, and high-value trade.

Chart 3. Aerospace & Defense industry backlog billions of U.S. dollars



Sources: FactSet, Company Reports, and Wells Fargo Investment Institute. Data as of March 6, 2026. Includes all S&P 500 Index Aerospace & Defense constituents for whom backlog data is available over the time period.

4. Department of War and company reports, as of February 2026.

5. Company reports and FactSet, as of February 2026.

Fixed Income

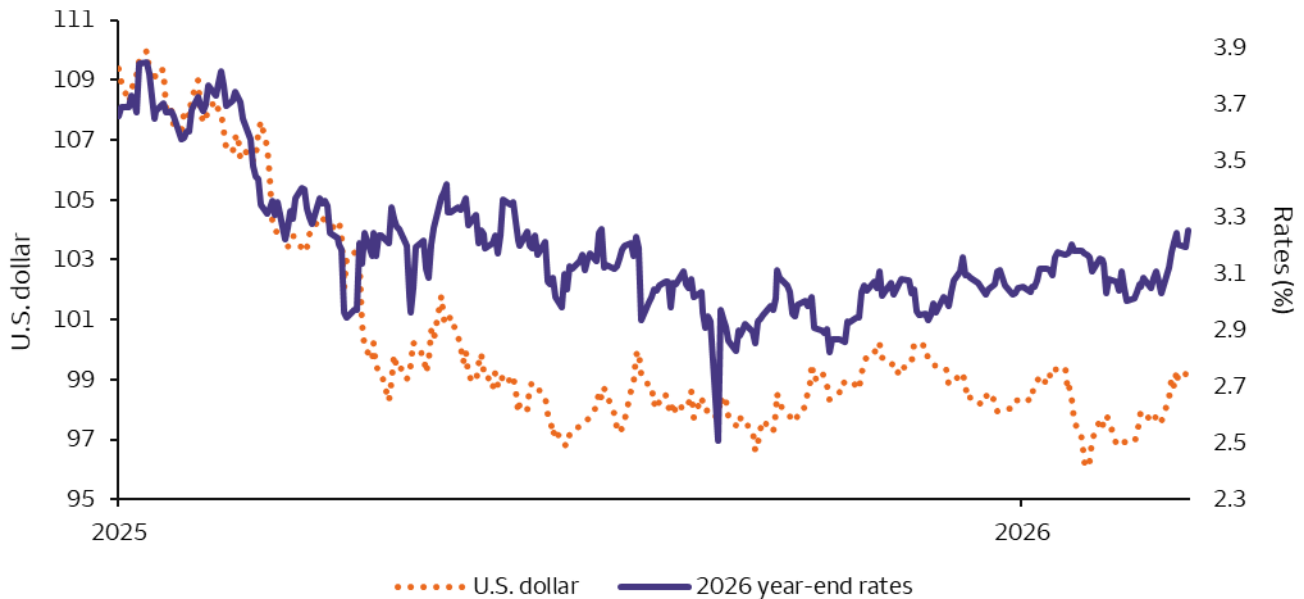
Tony Miano, CFA, CAIA

Investment Strategy Analyst

Why the U.S. dollar has been rising during the Iran war

During the Iran war, oil prices have become volatile and major assets such as stocks, bonds, and even gold have all struggled. The U.S. dollar has been one of the beneficiaries. After a 10% decline in 2025⁶, recent market volatility has supported the value of the U.S. dollar as investors often move money into perceived safer assets in geopolitical volatility. We question if that support will last beyond what we believe may be a short-lived conflict.

Chart 4. USD has risen with market pricing of year-end 2026 federal funds rate



Source: Bloomberg. Data as of March 10, 2026. USD is represented by the U.S. Dollar Index, a trade-weighted index of the currencies of several key U.S. trade partners. 2026 year-end rates represented by futures market derived pricing for market expectations of the federal funds rate at year-end 2026. An index is not managed and not available for direct investment. **Past performance is not a guarantee of future results.**

We believe the USD has strengthened for two reasons. First, higher oil prices raise the risk of inflation. That could make it harder for the Federal Reserve (Fed) to cut fed funds rates later this year. If U.S. interest rates stay higher than rates in other major economies, the U.S. dollar may benefit while potentially tempered by international rate expectations also rising. Second and more importantly, fears of an oil crisis may make the U.S. more attractive than other developed-markets currencies as the U.S. produces more oil than it uses.

As we see little long-lasting impact of the Iran war, the U.S. dollar's support should begin to wane with some depreciation from current levels. However, the U.S. dollar's response in this conflict shows some insulation of the U.S. economy from global energy shocks, which has driven our preference for U.S. assets. If the USD is set to weaken, international investments such as emerging-markets stocks and bonds priced in foreign currencies could become attractive for U.S. investors. However, inflation-driven risks to Fed rate cuts were already present before the Iran war and could rise as the conflict continues.

6. As measured by the U.S. Dollar Index (DXY), which had a value of 109.39 on January 1, 2025, and a value of 98.32 on December 31, 2025, per Bloomberg.

Alternatives

Mark Steffen, CFA, CAIA

Global Alternative Investment Strategist

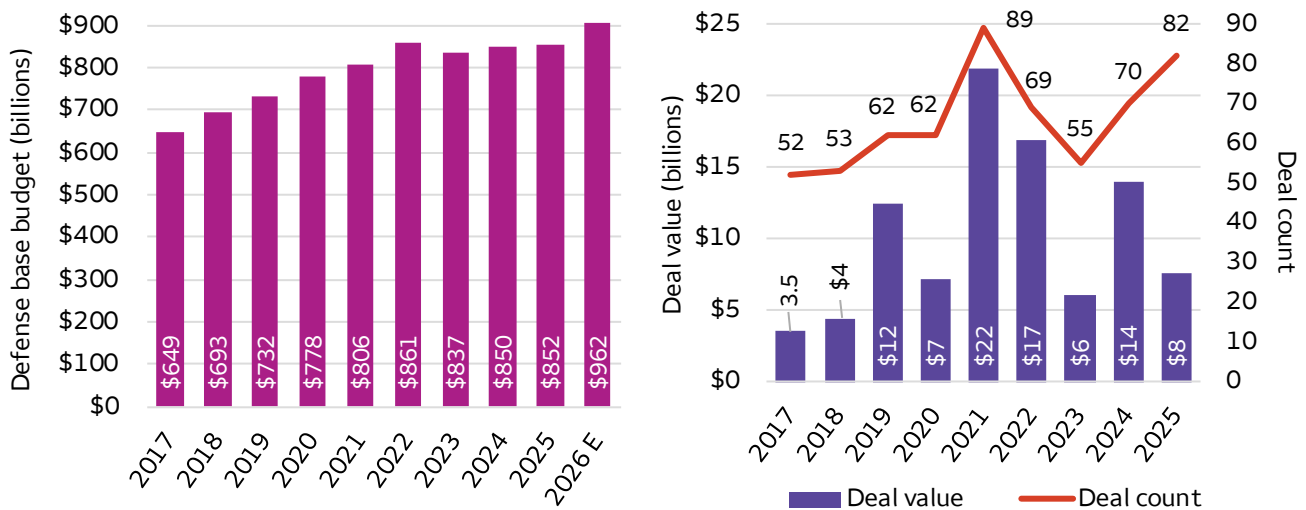
Private equity’s role in U.S. military readiness

Many investors may assume that large publicly traded defense contractors are the primary beneficiaries when U.S. defense spending rises or geopolitical tensions increase. However, what may be overlooked is the extent to which these large public companies depend on supplier networks consisting of small- and mid-sized private firms. Many of these private suppliers design and manufacture highly specialized components that underpin advanced weapons systems and aerospace technologies. As national munition stockpiles are drawn down, we believe many suppliers will likely face constrained manufacturing capacity, which may limit overall supply-chain responsiveness. If elevated demand persists, these capacity pressures could translate into a prolonged increase in orders for critical components.

Though it remains unclear when current geopolitical conflicts will be resolved, some analysts view these conflicts as part of a broad competition for essential resources in the race to deploy artificial intelligence related technology. If that view holds, persistent geopolitical tensions may represent a longer-term structural dynamic instead of a brief period of instability.

Recent U.S. defense spending has trended higher over time (Chart 5), and data from PitchBook indicates the potential for above trend growth in 2026. While the relationship between rising defense budgets and private equity deal volumes has been modest in recent years (Chart 6), we believe transaction activity in defense-related sectors may strengthen if industry visibility improves and corporate leaders revisit strategic acquisitions aimed at mitigating future supply-chain bottlenecks. Moreover, our expectation of an improving economic landscape and easing financing conditions may also contribute to an improved market for dealmaking, strengthening a case for private equity investors. Yet, several risks remain, including the potential for higher inflation and a broad deterioration in the economic outlook.

Charts 5 and 6. While defense spending has trended higher over time, defense-related private equity deal volumes remain muted



Sources: Pitchbook. Data through December 31, 2025 (left chart). E = estimated. Department of Defense. Data as of December 31, 2025 (right chart).

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
	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, March 16, 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. Investments in the **energy** sector are subject to the adverse economic events within that industry. A downturn in the energy sector of the economy, adverse political, legislative or regulatory developments or other events could have a large impact on a portfolio's investments. **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

The Defense Base Budget refers to the portion of U.S. Department of Defense (DoD) funding that supports normal, recurring, and peacetime military operations, excluding temporary or emergency supplemental appropriations. It covers long term, foundational military expenses such as personnel, operations and maintenance, procurement, research and development, and military construction. The 2026 estimate created by Pitchbook based on Pentagon funding requests for the current fiscal year. The defense-related private equity deal value measures the dollar value of private equity transactions classified in the defense sector by Pitchbook.

Bloomberg Commodity Index is comprised of 22 exchange-traded futures on physical commodities and represents 20 commodities weighted to account for economic significance and market liquidity.

Bloomberg Sub Energy Index is a commodity group subindex of the Bloomberg CTR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

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

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.

U.S. Dollar Index 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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