Timely guidance that may affect your investment strategy

April 21, 2023

Global Investment Strategy Team

☑ Guidance changes

☑ Forecast change

☑ Allocation changes

Announcing 2024 targets, and updated guidance

Guidance changes

- Global fixed income: We are upgrading U.S. Short Term Taxable Fixed Income from favorable to most favorable.
- Global equities: We are upgrading Developed Markets ex-U.S. Equities from most unfavorable to neutral. Also, we are downgrading U.S. Large Cap Equities from most favorable to favorable, U.S. Mid Cap Equities from favorable to neutral, and U.S. Small Cap Equities from unfavorable to most unfavorable. Regionally, we are upgrading European equities from unfavorable to neutral.
- Global real assets: We are upgrading the Precious Metals commodity sector from neutral to favorable.

Forecast changes

- Global economy and currencies: For 2023, the mild European winter leads us to adjust our eurozone forecast for a more moderate recession than previously forecasted, with corresponding upward revisions to regional and global growth. We maintain our view for a global 2023 slowdown and a moderate U.S. recession. For 2024, we foresee a gradually emerging global economic recovery, higher U.S. unemployment (a lagged result of the recession) but significantly lower inflation worldwide. In exchange rates, we expect a range-bound U.S. dollar close to current rates, but moderate 2024 dollar depreciation as the world economy gradually recovers.
- Global fixed income: We are not changing our 2023 rate targets, which show yield curve inversion consistent with recession. But our 2024 rate targets anticipate a positively sloped yield curve, as the Federal Reserve (Fed) cuts its policy rate and U.S. Treasury 10- and 30-year yields rise.
- Global equity targets: We are reducing our 2023 year-end U.S. Small Cap Equities price target as we are expecting credit risks to increase. However, we foresee higher earnings and price targets for major international indexes. With economic recovery in 2024, we forecast higher earnings and price targets globally.

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- Global real assets: We are reducing our 2023 crude oil targets and, consequently, are also lowering our Bloomberg Commodity Index target. We are raising our gold target, however, based on a range-bound U.S. dollar and slowing global growth. For 2024, we expect lower U.S. interest rates to support further gains for gold, while crude oil and broader commodity prices advance on improved global economic growth and limited supply.

Allocation changes

- As a consequence of our guidance changes, we favor reallocating from U.S. Large, Mid, and Small Cap Equities into Developed Market ex-U.S. Equities and U.S. Short Term Taxable Fixed Income. Specific allocation recommendations by investment objective appear in tables at the end of this report.

Table 1. Wells Fargo Investment Institute (WFII) 2023 and 2024 year-end forecasts and market targets

	Average percent change from the same period a year ago, unless otherwise noted		
Global economy	**2024 forecasts**	**New year-end 2023 targets**	**Previous year-end 2023 targets**
U.S. GDP growth	1.5%	1.1%	1.1%
U.S. CPI Inflation[1]	2.8%	2.9%	2.9%
U.S. unemployment rate[2]	4.9%	4.4%	4.4%
Global GDP growth	2.4%	**2.3%**	1.3%
Global inflation	3.3%	4.4%	4.4%
Developed market GDP growth	1.2%	**1.2%**	-0.4%
Developed market inflation	2.5%	3.7%	3.7%
Eurozone GDP growth	0.6%	**0.4%**	-3.4%
Eurozone inflation[1]	2.0%	2.1%	2.1%
Emerging market GDP growth	3.3%	2.6%	2.6%
Emerging market inflation	4.0%	4.8%	4.8%

NOTE: GDP = gross domestic product; CPI = Consumer Price Index.

[1] December-to-December change

[2] 3-month average, as of the fourth quarter

Equity targets	**2024 forecasts**	**New year-end 2023 targets**	**Previous year-end 2023 targets**
S&P 500 Index	4600-4800	4000-4200	4000-4200
S&P 500 EPS	$220	$205	$205
Russell Midcap Index	3200-3400	2700-2900	2700-2900
Russell Midcap EPS	$160	$145	$145
Russell 2000 Index	2000-2200	**1650-1850**	1750-1950
Russell 2000 EPS	$80	$70	$70
MSCI EAFE Index	2300-2500	**2000-2200**	1700-1900
MSCI EAFE EPS	$160	**$145**	$130
MSCI EM Index	1000-1200	**850-1050**	800-1000
MSCI EM EPS	$80	**$75**	$70

EPS=Earnings per share. EM = Emerging Market.

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Fixed Income targets	**2024 forecasts**	**New year-end 2023 targets**	**Previous year-end 2023 targets**
10-year U.S. Treasury yield	3.75%-4.25%	3.50%-4.00%	3.50%-4.00%
30-year U.S. Treasury yield	4.00%-4.50%	3.50%-4.00%	3.50%-4.00%
Federal funds rate	3.75%-4.00%	5.25%-5.50%	5.25%-5.50%

Real Assets targets	**2024 forecasts**	**New year-end 2023 targets**	**Previous year-end 2023 targets**
WTI crude oil	$100-$120	**$85-$95**	$100-$120
Brent crude oil	$105-$125	**$90-$100**	$105-$125
Gold	$2400-$2500	**$2100-$2200**	$1900-$2000
Bloomberg Commodity Index	275-295	**250-270**	270-290

Exchange Rate targets	**2024 forecasts**	**New year-end 2023 targets**	**Previous year-end 2023 targets**
Dollars per euro	$1.12-$1.20	**$1.03-$1.11**	$1.01-$1.09
Yen per dollar	¥120-¥130	¥130-¥140	¥130-¥140

Source: Wells Fargo Investment Institute, April 21, 2023. Bold type indicates changes. An index is unmanaged and not available for direct investment. Please see end of report for index definitions. **Forecasts, targets, and estimates are based on certain assumptions and on our current views of market and economic conditions, which are subject to change.**

Summary

Our economic forecasts still anticipate U.S. and eurozone recessions in 2023, and we now project an incipient recovery in 2024. However, trying to nail down precise recession beginning or end dates is very difficult, in light of the potential for additional credit-market strains to erupt into new insolvencies at individual firms or industries. We believe there is more room for 2023 volatility.

Rather than trying to forecast the precise timing of these economic and market movements, we focus on what we can control, as investors, and that is to review and adjust the investment plan based on potential risk (that is, volatility) and reward (potential upside or downside to our targets). Put simply: to prepare for events that affect opportunities, rather than guessing at timing that likely depends on variables — for example, debt ceiling impasse or credit market strains — whose courses are not yet predictable.

Since early 2022, our plan has favored defensively allocating toward quality. We now take further defensive steps, specifically seeking to reduce overall portfolio risk by reallocating some capital out of U.S. equities into asset classes that we believe offer higher quality and risk-reward balance. We do not envision these moves as permanent, but reducing risk is the next step in a defensive plan as we anticipate the near-term risks to equity prices rise. We expect to see broader opportunities in U.S. equities once markets begin to anticipate the recovery that we foresee in 2024. But that is not part of the plan, yet.

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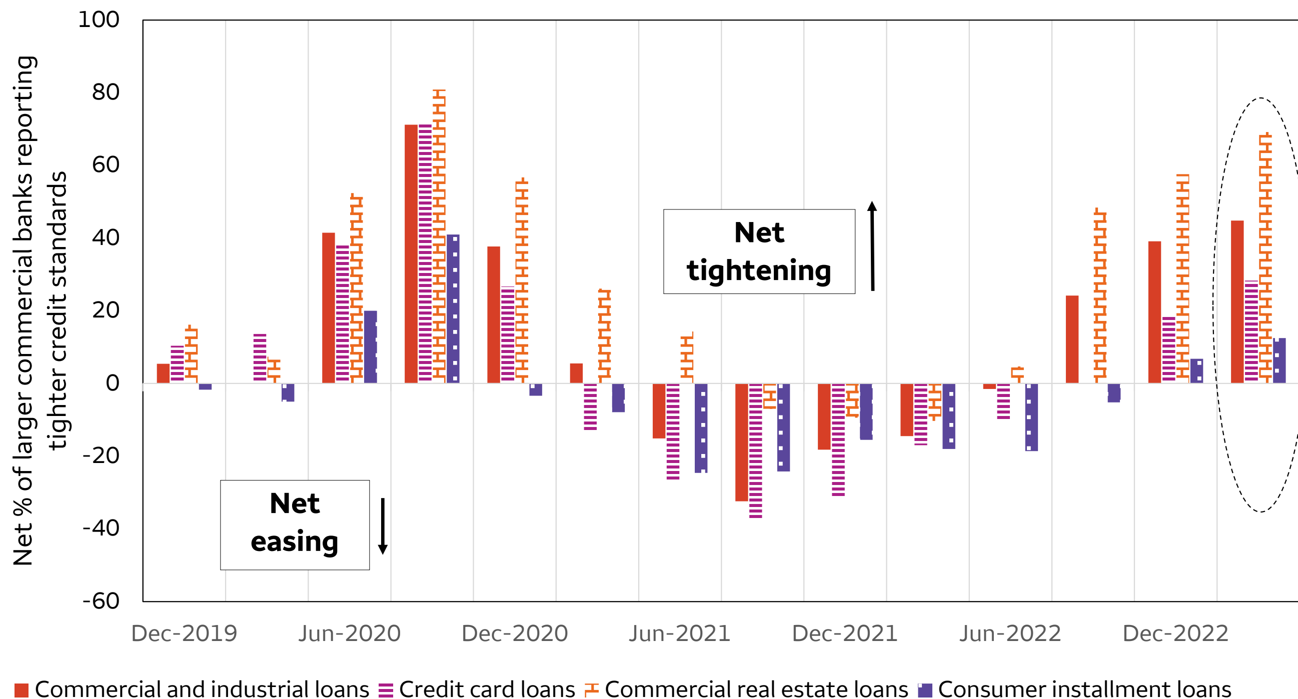
Keeping the right focus on the economic outlook

We view the economy's direction as more important for investors than timing its peaks and troughs. For now, that direction is clearly weaker, while tightening credit conditions (Chart 1) and still-elevated inflation are accelerating the trend.[1] Pressure on spendable income from reduced tax refunds, the resumption of student loan payments, and the threat of government spending cuts as an eventual part of a debt-ceiling compromise are set to pile on.

We often hear doubts about a recession while the airports are so full of travelers and the labor market is strong. But travel and leisure spending is only a small portion of total services, which include so many necessities that the broad services category historically does not contract when the rest of the economy goes into recession. Traffic at the airport does not preclude a recession. Likewise, the labor market has typically been one of the economy's final pillars to fall in recession. So, a strong labor market today does not prevent a recession tomorrow. Our view is that the labor market and services spending will not prevent a recession but may provide more of a cushion than in past downturns and allow a moderate recession, not another 2008 experience.

Chart 1. Bank credit standards signal much tighter credit, a precursor of recession



Sources: Federal Reserve Board and Wells Fargo Investment Institute. Quarterly data, December 2019 – March 2023.

We view year-end 2023 U.S. inflation of 3% or less as achievable. Wage pressures are set to ease, but we expect the absence of pervasive cost-of-living agreements and other institutional rigidities should allow rapid disinflation if the economy weakens into recession as expected. We do not expect much additional disinflation in 2024, while the recovery boosts commodity prices. But it is important to remember that other factors historically reduce inflation as recoveries develop. In particular, economic growth has typically outpaced hiring early in a recovery, boosting productivity and lowering unit labor costs that are the principal expense item for most businesses.

1. For a more complete list of the sectors of the economy at or already in recession, please see our report, "Revising our outlook to reflect higher rates for longer", March 2, 2023.

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By 2024, inflation rates below wage gains should boost household spending. The start of Fed interest rate cuts is likely to encourage spending on credit-sensitive sectors, including housing, durable goods, and inventories. We expect the growth recovery to be kept moderate by policy uncertainties weighing on the economy and on the asset markets in an election year, including the looming expiration of Trump-era tax cuts only partially countered by economic stimulus through 2023.

2023 will be notable for a synchronized global slowdown, but we believe Europe's recession will be much more moderate than our earlier forecasts, thanks to avoiding a difficult winter. For 2024, we believe the U.S. likely will lead Europe and other overseas economies in a global recovery. Dollar weakness likely will provide added U.S. support to global growth (and to U.S. multinationals' overseas profits) over the course of 2024 by boosting commodity prices, lowering repayment costs for U.S.-dollar-denominated debt and, ultimately, by accommodating easier monetary policies abroad. Yet the recovery should be gradual, especially as support from China will be notably absent for this recovery. The Chinese economy is tilting more toward consumer-led growth, which should be less globally stimulative than past programs driven by massive infrastructure spending and manufactured exports.

Stable dollar to give way to a clearer downtrend in 2024

We are making only minor revisions to our 2023 currency targets, maintaining our bias for a range-bound U.S. dollar. The financial tremors of the first quarter may mean that U.S. policy rates provide slightly less support for the dollar than we previously anticipated. Meanwhile, euro sentiment should remain more robust, especially as the European Central Bank (ECB) aggressively raises interest rates. Nonetheless, euro upside should be limited this year, as we do not expect U.S. rate cuts until 2024. Our (unchanged) yen target range and only slightly stronger euro imply a broad range for the dollar.

In 2024 we foresee a perceptible dollar downtrend, mainly because international interest rates are likely to favor capital flows into international markets. First, we expect that the ECB will be more willing than the Fed to keep rates at peak levels for longer. Second, we also foresee a stronger yen, helped by stronger global trade and Japanese monetary policy changes, to allow 10-year Japanese yields to rise. We believe these factors should lead to a weaker dollar in 2024, potentially back to levels last seen in early 2022.

The Fed will pivot — eventually

Inflation and U.S. interest rates together are restricting the economy, but the Fed's work seems incomplete. Rate hikes likely will pause this summer, but we do not expect the policymakers to pivot to rate cuts until they are confident that inflation is on a track to achieve the Fed's 2% objective. This is unlikely before 2024.

Once the Fed achieves lower inflation, the Fed's 2024 focus should shift back to improving both employment and economic conditions. To reestablish economic growth, the Fed will need to quickly pivot from higher to lower rates. We foresee multiple rate cuts next year as the Fed quickly recalibrates the federals funds rate to restrict credit much less than it does today.

Reestablishing a positive yield curve slope

The difference between long- and short-term rates typically gives good signals about the economy. Chart 2 illustrates how the pattern changes from recession to recovery. The chart plots the difference between 10-year and 3-month U.S. Treasury securities, a measure of the slope across the maturity spectrum, or yield curve. Negative slopes, or inversion, has historically preceded recessions. The inversion that began in 2022 should continue

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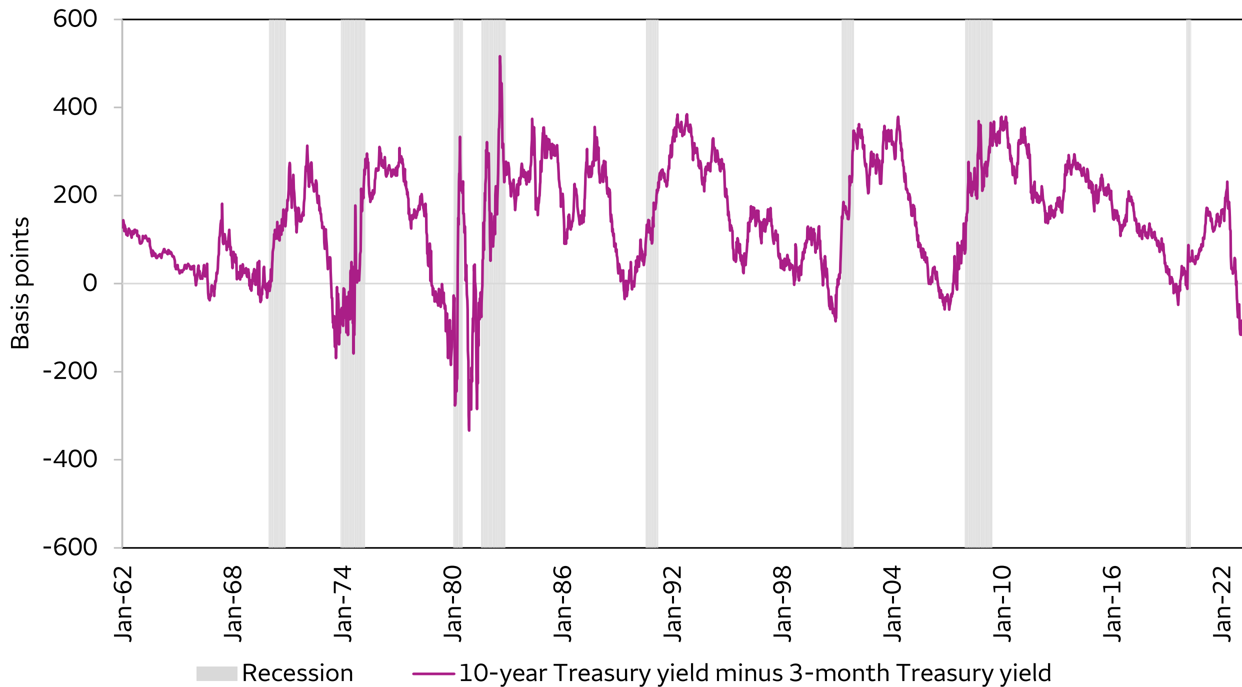
through this year, although with volatility in yields while market expectations for Fed policy and the economy adjust.

The important point is that the yield curve is a view into the future of the economy. Looking into 2024, we believe the yield curve will regain a positive slope — that is, long-term rates rising above short-term rates – the typical pattern as the economy inflects from contraction to recovery. In view of higher expected long-term rates, our U.S. Long Term Fixed Income guidance remains at most favorable, thus maintaining a favorable duration[2] stance (within investment grade fixed income).

Chart 2. Around economic recoveries, long-term interest rates rise faster than short-term rates



Sources: Bloomberg and Wells Fargo Investment Institute. Weekly data from January 5, 1962, to April 14, 2023. An inverted yield curve occurs when the yields on bonds with shorter durations are higher than the yields on bonds with longer durations. The difference between the 10-year and the 3-month Treasury yield measures the spread between short- and long-term interest rates. Vertical gray bands indicate the periods of U.S. recession as defined by the National Bureau of Economic Research (NBER). One hundred basis points equal 1%. Yields represent past performance and fluctuate with market conditions. **Past performance is no guarantee of future results.**

Upgrading U.S. Short Term Taxable Fixed Income to most favorable from favorable

Our more defensive view of 2023 includes taking our guidance on U.S. Short Term Taxable Fixed Income from favorable to most favorable, and reallocating to this asset class from U.S. equities. Short-term fixed income should potentially provide investors an attractive yield, if, as we expect, the Fed increases the federal funds rate through June 2023 and then holds rates fixed into year-end. Aside from its yield, we believe U.S. Short Term Taxable Fixed Income also is attractive for low volatility and for its quick redeployment back into equities once equity markets eventually look past the risks of 2023 into recovery next year.

[2] Duration is a measure of a bond's interest rate sensitivity.

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Equity targets reflect near-term difficulties, recovery in 2024

The aphorism, “the more things change, the more they stay the same”, describes the S&P 500 Index pretty well lately. In fact, the S&P 500 Index has oscillated between 3700 – 4300 for more than a year. The good news is that the policy tightening cycle has nearly finished. The bad news is that markets and the economy have yet to experience a recession, and a related decline in earnings.

More importantly, we believe that Wall Street consensus earnings estimates are still too high. As these estimates adjust lower during the coming weeks and months, we foresee more downside in equity prices. This expectation has been part of our outlook since 2022, and so we make few target changes for this year. An exception is that we are lowering our 2023 price target for small-cap equities given enhanced exposure to banking system strains and tightening credit conditions.

By 2024, U.S. markets should begin to position for the early cycle recovery we see emerging next year (and likely extending beyond). As stock prices rebound faster than earnings, we will likely see sharp expansion in valuations early in 2024, before earnings growth accelerates and those multiples begin reverting toward historically average levels. So, our 2024 targets reflect a new expected performance ranking that is more typical of an early-recovery pattern of U.S. Small and Mid Cap Equities over Large Cap Equities — but next year, not in 2023.

Straightening the U.S.-over-international equities lean

Overseas markets likely will perform in line with, if not outperform, certain U.S. markets as the global economy rebounds and the U.S. dollar likely resumes its downtrend. Our earnings outlook has improved for international equities as we believe a severe recession in Europe seems less likely and China’s reopening may likely lessen profit declines in 2023. Additional support comes from our forecast for a flat to weaker dollar.

From a ratings standpoint, we retain a dose of caution and maintain an unfavorable rating on Emerging Market Equities (EM), considering the ongoing political risks from Chinese regulatory reform, U.S.-China diplomatic and economic strains, and China’s shift to emphasize domestic consumption (and the slower growth rate that this policy shift implies).

Developed Market ex-U.S. Equities (DM) appear to be a better region for allocations. Europe still faces an uncertain energy future next winter, but sentiment on DM equities has likely passed its nadir and the upturn supports higher absolute and relative valuations which currently sit near 17-year lows. Chart 3 illustrates Developed Market ex-U.S. Equities’ price-to-earnings ratio (P/E) relative to the comparable S&P 500 Index P/E near a 17-year low in valuation. These considerations support price and earnings target ranges. Our rating also takes a two-notch upgrade, from most unfavorable to neutral (balancing the positives against the risks to the energy outlook).

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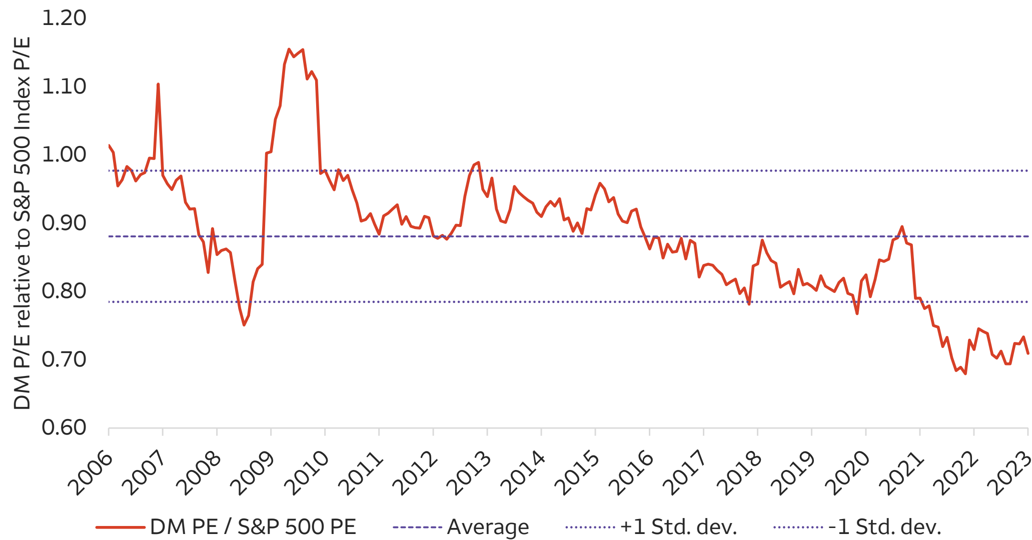
Chart 3. After 17 years, Developed ex-U.S. Equities finally look attractive relative to the S&P 500 Index



Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data: January 31, 2006 – March 31, 2023. DM PE is represented by the price to earnings multiple of the MSCI EAFE Index. The chart also shows the January 2006 – March 2023 standard deviation (a measure of volatility), above and below the average for the same period. . An index is unmanaged and not available for direct investment. Please see end of report for index definitions. **Past performance is no guarantee of future results.**

At the regional level, we are upgrading Europe from unfavorable to neutral, while the Pacific remains favorable. We are maintaining our favorable rating on the Pacific region because we expect the yen to outgain the euro against the dollar. Changes to Japan's monetary policy and Japan's proximity to Chinese markets leave it well-positioned to benefit from China's exit from COVID restrictions.

Considering the upgrade to DM and the downgrades to the U.S. markets, we believe it is prudent to reduce overall (U.S.) equity risk, in favor of reallocations to high-quality U.S. Short Term Taxable Fixed Income, and to DM equities. Our view is that the time has come to normalize what has been an extreme preference for U.S. equities over its international counterparts, and we begin with a measured shift of capital abroad. The tables in the appendix to this report offer our specific allocation preferences.

Not a permanent shift away from U.S. equities

Since early 2022, we have maintained a focus on quality in U.S. equity markets. As the anticipated recession approaches, reallocations away from U.S. equities, into even higher-quality U.S. Short Term Taxable Fixed Income are still part of that broad strategy of reallocating to where the risk-reward balance is better. Rebalancing between the U.S. and new potential opportunities in Europe is another step in the same direction.

But we do not envision these U.S. downgrades and reallocations as permanent. Even with the rating downgrade, U.S. Large Cap Equities still retain a favorable rating and remain at the top of the U.S. rankings for their quality traits, such as greater earnings stability, low debt levels, and superior return on equity. More to the point, we are taking risk off the table in the near term, but we also expect new opportunities to position for U.S. economic and market recovery in 2024. As Chart 4 illustrates, the S&P 500 Index has tended to detect a recovery well before the end of a recession. Once we believe that equity investors have adequately discounted recession risks, the risk and reward may switch to favor a wider set of favorites.

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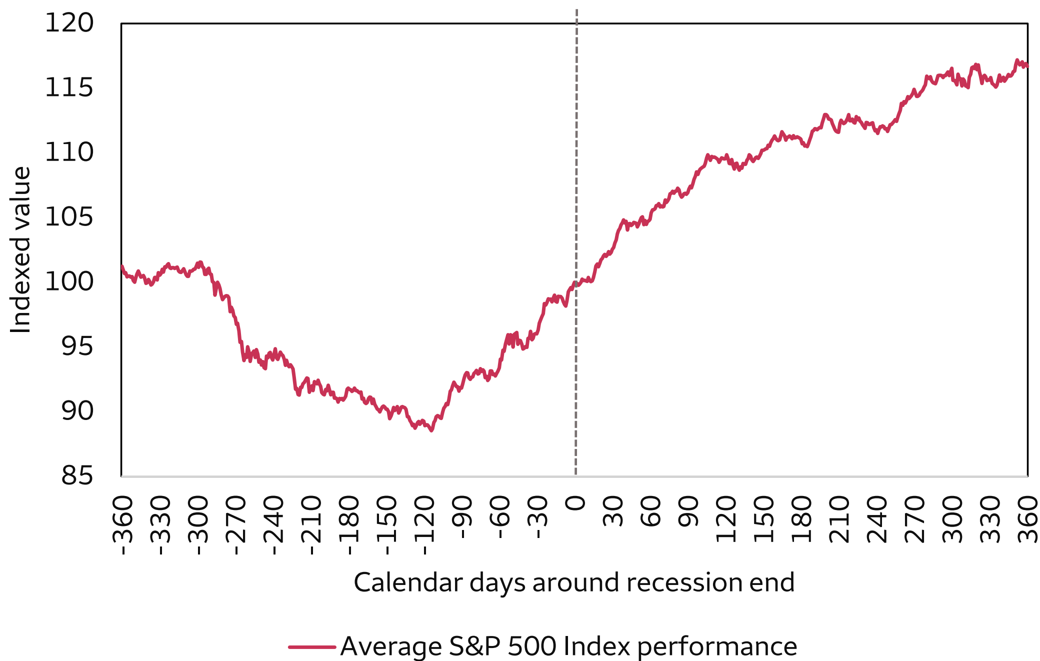
Chart 4. The S&P 500 Index has typically bottomed around four months prior to the end of the recession



Sources: Bloomberg and Wells Fargo Investment Institute. Indexed to 100 as of the end of every recession since 1948. An index is unmanaged and not available for direct investment. Please see end of report for index definitions. **Past performance is no guarantee of future results.**

When commodity prices are resilient in recession

We are lowering our year-end 2023 crude oil target ranges, in large part because a global economic slowdown looms. Slow growth in China and recession in other regions should dampen demand and restrict prices. While we have become cautious in the short term, oil's long-term potential remains bright, especially with the commodity super-cycle bull still young and strong.[3] Chart 5 plots the average performance of crude oil prices around recessions since 1902. During bull super-cycles, oil prices showed strong performance during and after recessions, supporting our view for higher oil prices in 2024.

Recently exposed strains among small and regional U.S. banks, a range-bound U.S. dollar, and an impending U.S. recession have reignited interest in gold. We expect interest in gold to remain high for the remainder of 2023, as economic growth slows and the U.S. dollar stays range-bound. We are raising our year-end 2023 target for gold and are upgrading the Precious Metals sector from neutral to favorable.

Looking into 2024, we remain favorable on commodities. Ongoing commodity supply shortages and economic recovery should push prices higher more consistently, and our 2024 target ranges are all higher than 2023 target ranges.

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3. A commodity super-cycle refers to an extended period of significant price gains (a bull super-cycle) or losses (bear super-cycle) that exceed their long-term averages. Such super-cycles typically evolve when supply is slow to respond to prolonged changes in demand. Since 2020, commodity demand has far exceeded supply, and we believe that farmers, miners and drillers will continue to need more time to increase their production enough to match demand. Because the tendency is for these imbalances to produce higher prices, we refer to this super-cycle as a bull super-cycle. Such super-cycles typically run for well over a decade and can outlast periods of economic growth and recession. For more details, please see our report "The commodity bull super-cycle", March 30, 2023.

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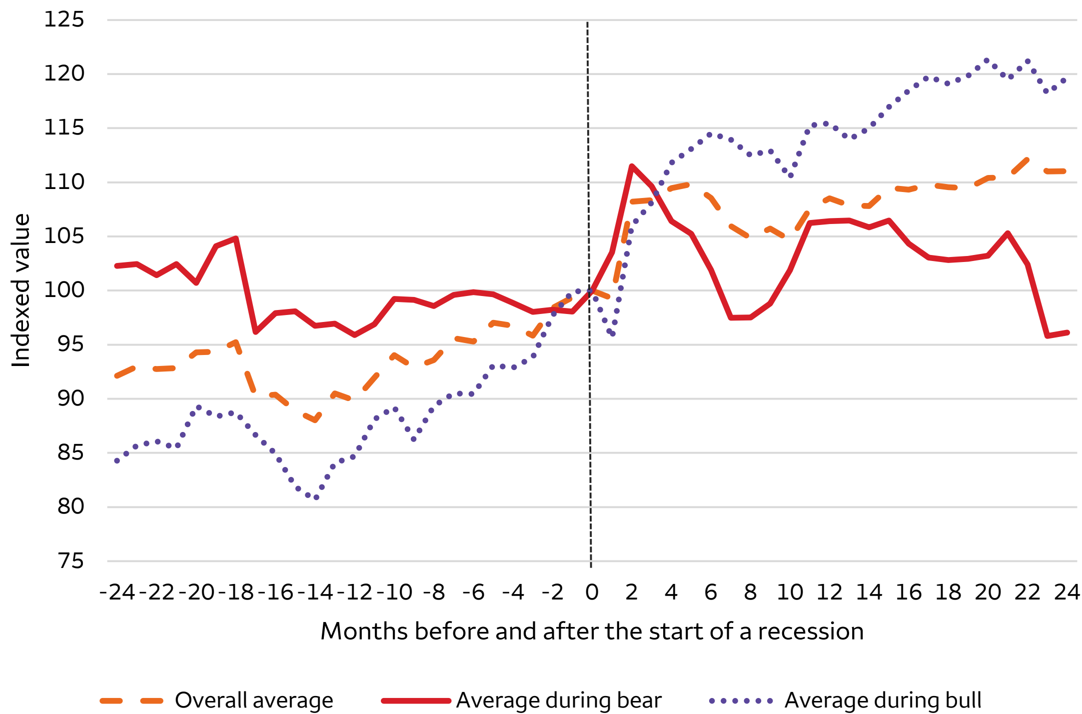
Chart 5. Absolute oil performance around recessions



Sources: Bloomberg, Kitco, Bureau of Labor Statistics (BLS), National Bureau of Economic Research (NBER), and Wells Fargo Investment Institute. Monthly data is from September 28, 1900 – February 28, 2022, and indexed to 100 at the start of recessions. Overall average is the average of the periods around every U.S. recession since 1902. Average during bear (bull) is the average of the periods around every U.S. recession since 1902 that also occurred during a commodity super-cycle bear (bull). **Past performance is no guarantee of future results.**

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Illiquid

May include fixed-income, equities, real assets, and alternative investments

Updated for strategic allocation as of July 18, 2022 and for tactical allocation as of April 21, 2023.

		CONSERVATIVE					MODERATE					AGGRESSIVE				
		Strategic Allocation	Tactical Allocation	Prior Tactical Allocation	Active Weight	Changes to Tactical Allocation	Strategic Allocation	Tactical Allocation	Prior Tactical Allocation	Active Weight	Changes to Tactical Allocation	Strategic Allocation	Tactical Allocation	Prior Tactical Allocation	Active Weight	Changes to Tactical Allocation
INCOME	**CASH ALTERNATIVES**	2%	2%	2%	0%	0%	2%	2%	2%	0%	0%	2%	2%	2%	0%	0%
	TOTAL GLOBAL FIXED INCOME	64%	66%	64%	2%	2%	53%	55%	53%	2%	2%	45%	45%	45%	0%	0%
	U.S. Taxable Investment Grade Fixed Inco	59%	63%	61%	4%	2%	46%	50%	48%	4%	2%	33%	37%	37%	4%	0%
	Short Term Taxable*	12%	16%	14%	4%	2%	9%	13%	11%	4%	2%	6%	9%	9%	3%	0%
	Intermediate Taxable*	35%	30%	30%	-5%	0%	28%	23%	23%	-5%	0%	20%	16%	16%	-4%	0%
	Long Term Taxable*	12%	17%	17%	5%	0%	9%	14%	14%	5%	0%	7%	12%	12%	5%	0%
	High Yield Taxable Fixed Income	2%	0%	0%	-2%	0%	2%	0%	0%	-2%	0%	4%	0%	0%	-4%	0%
	Developed Market Ex-U.S. Fixed Income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Emerging Market Fixed Income	3%	3%	3%	0%	0%	5%	5%	5%	0%	0%	8%	8%	8%	0%	0%
	TOTAL GLOBAL EQUITIES	12%	8%	10%	-4%	-2%	22%	18%	20%	-4%	-2%	27%	25%	25%	-2%	0%
	U.S. Large Cap Equities	8%	8%	8%	0%	0%	12%	12%	14%	0%	-2%	15%	17%	15%	2%	2%
	U.S. Mid Cap Equities	2%	0%	2%	-2%	-2%	4%	2%	6%	-2%	-4%	6%	4%	10%	-2%	-6%
	U.S. Small Cap Equities	0%	0%	0%	0%	0%	2%	0%	0%	-2%	0%	2%	0%	0%	-2%	0%
	Developed Market Ex-U.S. Equities	2%	0%	0%	-2%	0%	4%	4%	0%	0%	4%	4%	4%	0%	0%	4%
	Emerging Market Equities	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	TOTAL GLOBAL REAL ASSETS	7%	9%	9%	2%	0%	8%	10%	10%	2%	0%	9%	11%	11%	2%	0%
	Private Real Estate**	5%	5%	5%	0%	0%	6%	6%	6%	0%	0%	7%	7%	7%	0%	0%
	Commodities	2%	4%	4%	2%	0%	2%	4%	4%	2%	0%	2%	4%	4%	2%	0%
	TOTAL ALTERNATIVE INVESTMENTS**	15%	15%	15%	0%	0%	15%	15%	15%	0%	0%	17%	17%	17%	0%	0%
	Global Hedge Funds	11%	11%	11%	0%	0%	11%	11%	11%	0%	0%	11%	11%	11%	0%	0%
	Private Equity	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Private Debt	4%	4%	4%	0%	0%	4%	4%	4%	0%	0%	6%	6%	6%	0%	0%
GROWTH AND INCOME	**CASH ALTERNATIVES**	2%	2%	2%	0%	0%	2%	2%	2%	0%	0%	2%	2%	2%	0%	0%
	TOTAL GLOBAL FIXED INCOME	38%	39%	39%	1%	0%	29%	32%	30%	3%	2%	23%	26%	26%	3%	0%
	U.S. Taxable Investment Grade Fixed Inco	31%	36%	36%	5%	0%	21%	28%	26%	7%	2%	14%	20%	20%	6%	0%
	Short Term Taxable*	6%	9%	9%	3%	0%	4%	9%	7%	5%	2%	3%	6%	6%	3%	0%
	Intermediate Taxable*	19%	16%	16%	-3%	0%	13%	10%	10%	-3%	0%	8%	5%	5%	-3%	0%
	Long Term Taxable*	6%	11%	11%	5%	0%	4%	9%	9%	5%	0%	3%	9%	9%	6%	0%
	High Yield Taxable Fixed Income	4%	0%	0%	-4%	0%	4%	0%	0%	-4%	0%	3%	0%	0%	-3%	0%
	Developed Market Ex-U.S. Fixed Income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Emerging Market Fixed Income	3%	3%	3%	0%	0%	4%	4%	4%	0%	0%	6%	6%	6%	0%	0%
	TOTAL GLOBAL EQUITIES	32%	29%	29%	-3%	0%	39%	34%	36%	-5%	-2%	46%	41%	41%	-5%	0%
	U.S. Large Cap Equities	16%	19%	19%	3%	0%	18%	18%	22%	0%	-4%	22%	25%	25%	3%	0%
	U.S. Mid Cap Equities	6%	5%	10%	-1%	-5%	8%	8%	12%	0%	-4%	8%	6%	13%	-2%	-7%
	U.S. Small Cap Equities	2%	0%	0%	-2%	0%	3%	0%	0%	-3%	0%	4%	0%	0%	-4%	0%
	Developed Market Ex-U.S. Equities	5%	5%	0%	0%	5%	6%	6%	0%	0%	6%	7%	7%	0%	0%	7%
	Emerging Market Equities	3%	0%	0%	-3%	0%	4%	2%	2%	-2%	0%	5%	3%	3%	-2%	0%
	TOTAL GLOBAL REAL ASSETS	9%	11%	11%	2%	0%	10%	12%	12%	2%	0%	10%	12%	12%	2%	0%
	Private Real Estate**	5%	5%	5%	0%	0%	6%	6%	6%	0%	0%	6%	6%	6%	0%	0%
	Commodities	4%	6%	6%	2%	0%	4%	6%	6%	2%	0%	4%	6%	6%	2%	0%
	TOTAL ALTERNATIVE INVESTMENTS**	19%	19%	19%	0%	0%	20%	20%	20%	0%	0%	19%	19%	19%	0%	0%
	Global Hedge Funds	10%	10%	10%	0%	0%	10%	10%	10%	0%	0%	7%	7%	7%	0%	0%
	Private Equity	6%	6%	6%	0%	0%	7%	7%	7%	0%	0%	9%	9%	9%	0%	0%
	Private Debt	3%	3%	3%	0%	0%	3%	3%	3%	0%	0%	3%	3%	3%	0%	0%
GROWTH	**CASH ALTERNATIVES**	1%	1%	1%	0%	0%	1%	1%	1%	0%	0%	1%	1%	1%	0%	0%
	TOTAL GLOBAL FIXED INCOME	15%	20%	18%	5%	2%	9%	14%	12%	5%	2%	0%	6%	4%	6%	2%
	U.S. Taxable Investment Grade Fixed Inco	9%	17%	15%	8%	2%	4%	12%	10%	8%	2%	0%	6%	4%	6%	2%
	Short Term Taxable*	2%	8%	6%	6%	2%	0%	6%	4%	6%	2%	0%	6%	4%	6%	2%
	Intermediate Taxable*	5%	2%	2%	-3%	0%	4%	6%	6%	2%	0%	0%	0%	0%	0%	0%
	Long Term Taxable*	2%	7%	7%	5%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	High Yield Taxable Fixed Income	3%	0%	0%	-3%	0%	2%	0%	0%	-2%	0%	0%	0%	0%	0%	0%
	Developed Market Ex-U.S. Fixed Income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Emerging Market Fixed Income	3%	3%	3%	0%	0%	3%	2%	2%	-1%	0%	0%	0%	0%	0%	0%
	TOTAL GLOBAL EQUITIES	53%	46%	48%	-7%	-2%	63%	56%	58%	-7%	-2%	70%	62%	64%	-8%	-2%
	U.S. Large Cap Equities	24%	25%	27%	1%	-2%	24%	27%	27%	3%	0%	24%	25%	23%	1%	2%
	U.S. Mid Cap Equities	9%	10%	13%	1%	-3%	13%	13%	17%	0%	-4%	15%	13%	19%	-2%	-6%
	U.S. Small Cap Equities	5%	0%	3%	-5%	-3%	6%	0%	4%	-6%	-4%	7%	3%	7%	-4%	-4%
	Developed Market Ex-U.S. Equities	9%	9%	3%	0%	6%	11%	11%	5%	0%	6%	12%	12%	6%	0%	6%
	Emerging Market Equities	6%	2%	2%	-4%	0%	9%	5%	5%	-4%	0%	12%	9%	9%	-3%	0%
	TOTAL GLOBAL REAL ASSETS	10%	12%	12%	2%	0%	10%	12%	12%	2%	0%	11%	13%	13%	2%	0%
	Private Real Estate**	5%	5%	5%	0%	0%	5%	5%	5%	0%	0%	6%	6%	6%	0%	0%
	Commodities	5%	7%	7%	2%	0%	5%	7%	7%	2%	0%	5%	7%	7%	2%	0%
	TOTAL ALTERNATIVE INVESTMENTS**	21%	21%	21%	0%	0%	17%	17%	17%	0%	0%	18%	18%	18%	0%	0%
	Global Hedge Funds	7%	7%	7%	0%	0%	2%	2%	2%	0%	0%	0%	0%	0%	0%	0%
	Private Equity	11%	11%	11%	0%	0%	12%	12%	12%	0%	0%	15%	15%	15%	0%	0%
	Private Debt	3%	3%	3%	0%	0%	3%	3%	3%	0%	0%	3%	3%	3%	0%	0%

Source: Wells Fargo Investment Institute, April 21, 2023. Evenweight includes a +/- 100 basis points band around strategic allocation. One hundred basis points = 1.00%. Strategic allocations as of July 2022. Strategic allocations are updated annually. Tactical allocations are updated periodically. *Wells Fargo Advisors only. **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 this report for important definitions and disclosures.

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Liquid

May include fixed-income, equities, and real assets

Updated for strategic allocation as of July 18, 2022 and for tactical allocation as of April 21, 2023.

		CONSERVATIVE					MODERATE					AGGRESSIVE				
		Strategic Allocation	Tactical Allocation	Prior Tactical Allocation	Active Weight	Changes to Tactical Allocation	Strategic Allocation	Tactical Allocation	Prior Tactical Allocation	Active Weight	Changes to Tactical Allocation	Strategic Allocation	Tactical Allocation	Prior Tactical Allocation	Active Weight	Changes to Tactical Allocation
INCOME	**CASH ALTERNATIVES**	**2%**	**2%**	**2%**	**0%**	**0%**	**2%**	**2%**	**2%**	**0%**	**0%**	**2%**	**2%**	**2%**	**0%**	**0%**
	TOTAL GLOBAL FIXED INCOME	**78%**	**80%**	**78%**	**2%**	**2%**	**67%**	**68%**	**66%**	**1%**	**2%**	**59%**	**62%**	**60%**	**3%**	**2%**
	U.S. Taxable Investment Grade Fixed Income	**72%**	**77%**	**75%**	**5%**	**2%**	**58%**	**63%**	**61%**	**5%**	**2%**	**45%**	**52%**	**50%**	**7%**	**2%**
	Short Term Taxable*	14%	19%	17%	5%	2%	11%	15%	13%	4%	2%	9%	15%	13%	6%	2%
	Intermediate Taxable*	44%	39%	39%	-5%	0%	35%	32%	32%	-3%	0%	27%	23%	23%	-4%	0%
	Long Term Taxable*	14%	19%	19%	5%	0%	12%	16%	16%	4%	0%	9%	14%	14%	5%	0%
	High Yield Taxable Fixed Income	3%	0%	0%	-3%	0%	4%	0%	0%	-4%	0%	6%	2%	2%	-4%	0%
	Developed Market Ex-U.S. Fixed Income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Emerging Market Fixed Income	3%	3%	3%	0%	0%	5%	5%	5%	0%	0%	8%	8%	8%	0%	0%
	TOTAL GLOBAL EQUITIES	**18%**	**14%**	**16%**	**-4%**	**-2%**	**29%**	**27%**	**29%**	**-2%**	**-2%**	**37%**	**32%**	**34%**	**-5%**	**-2%**
	U.S. Large Cap Equities	12%	12%	12%	0%	0%	16%	18%	20%	2%	-2%	19%	19%	21%	0%	-2%
	U.S. Mid Cap Equities	4%	2%	4%	-2%	-2%	5%	5%	7%	0%	-2%	7%	6%	11%	-1%	-5%
	U.S. Small Cap Equities	0%	0%	0%	0%	0%	4%	0%	2%	-4%	-2%	4%	0%	0%	-4%	0%
	Developed Market Ex-U.S. Equities	2%	0%	0%	-2%	0%	4%	4%	0%	0%	4%	7%	7%	2%	0%	5%
	Emerging Market Equities	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	TOTAL GLOBAL REAL ASSETS	**2%**	**4%**	**4%**	**2%**	**0%**	**2%**	**3%**	**3%**	**1%**	**0%**	**2%**	**4%**	**4%**	**2%**	**0%**
	Commodities	2%	4%	4%	2%	0%	2%	3%	3%	1%	0%	2%	4%	4%	2%	0%
GROWTH AND INCOME	**CASH ALTERNATIVES**	**2%**	**2%**	**2%**	**0%**	**0%**	**2%**	**2%**	**2%**	**0%**	**0%**	**2%**	**2%**	**2%**	**0%**	**0%**
	TOTAL GLOBAL FIXED INCOME	**50%**	**54%**	**52%**	**4%**	**2%**	**41%**	**45%**	**43%**	**4%**	**2%**	**33%**	**37%**	**34%**	**4%**	**3%**
	U.S. Taxable Investment Grade Fixed Income	**39%**	**47%**	**45%**	**8%**	**2%**	**30%**	**38%**	**36%**	**8%**	**2%**	**20%**	**28%**	**25%**	**8%**	**3%**
	Short Term Taxable*	8%	14%	12%	6%	2%	6%	12%	10%	6%	2%	4%	11%	8%	7%	3%
	Intermediate Taxable*	23%	19%	19%	-4%	0%	18%	14%	14%	-4%	0%	12%	8%	8%	-4%	0%
	Long Term Taxable*	8%	14%	14%	6%	0%	6%	12%	12%	6%	0%	4%	9%	9%	5%	0%
	High Yield Taxable Fixed Income	6%	2%	2%	-4%	0%	6%	2%	2%	-4%	0%	7%	3%	3%	-4%	0%
	Developed Market Ex-U.S. Fixed Income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Emerging Market Fixed Income	5%	5%	5%	0%	0%	5%	5%	5%	0%	0%	6%	6%	6%	0%	0%
	TOTAL GLOBAL EQUITIES	**44%**	**38%**	**40%**	**-6%**	**-2%**	**53%**	**46%**	**48%**	**-7%**	**-2%**	**61%**	**55%**	**58%**	**-6%**	**-3%**
	U.S. Large Cap Equities	20%	22%	24%	2%	-2%	24%	27%	29%	3%	-2%	28%	32%	34%	4%	-2%
	U.S. Mid Cap Equities	8%	9%	12%	1%	-3%	10%	11%	14%	1%	-3%	12%	12%	17%	0%	-5%
	U.S. Small Cap Equities	5%	0%	2%	-5%	-2%	6%	0%	3%	-6%	-3%	6%	0%	3%	-6%	-3%
	Developed Market Ex-U.S. Equities	7%	7%	2%	0%	5%	8%	8%	2%	0%	6%	9%	9%	2%	0%	7%
	Emerging Market Equities	4%	0%	0%	-4%	0%	5%	0%	0%	-5%	0%	6%	2%	2%	-4%	0%
	TOTAL GLOBAL REAL ASSETS	**4%**	**6%**	**6%**	**2%**	**0%**	**4%**	**7%**	**7%**	**3%**	**0%**	**4%**	**6%**	**6%**	**2%**	**0%**
	Commodities	4%	6%	6%	2%	0%	4%	7%	7%	3%	0%	4%	6%	6%	2%	0%
GROWTH	**CASH ALTERNATIVES**	**2%**	**2%**	**2%**	**0%**	**0%**	**2%**	**2%**	**2%**	**0%**	**0%**	**2%**	**2%**	**2%**	**0%**	**0%**
	TOTAL GLOBAL FIXED INCOME	**22%**	**28%**	**23%**	**6%**	**5%**	**14%**	**19%**	**15%**	**5%**	**4%**	**5%**	**12%**	**6%**	**7%**	**6%**
	U.S. Taxable Investment Grade Fixed Income	**16%**	**25%**	**20%**	**9%**	**5%**	**8%**	**19%**	**15%**	**11%**	**4%**	**3%**	**12%**	**6%**	**9%**	**6%**
	Short Term Taxable*	3%	11%	6%	8%	5%	2%	10%	6%	8%	4%	0%	8%	2%	8%	6%
	Intermediate Taxable*	10%	6%	6%	-4%	0%	4%	2%	2%	-2%	0%	3%	4%	4%	1%	0%
	Long Term Taxable*	3%	8%	8%	5%	0%	2%	7%	7%	5%	0%	0%	0%	0%	0%	0%
	High Yield Taxable Fixed Income	3%	0%	0%	-3%	0%	3%	0%	0%	-3%	0%	0%	0%	0%	0%	0%
	Developed Market Ex-U.S. Fixed Income	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Emerging Market Fixed Income	3%	3%	3%	0%	0%	3%	0%	0%	-3%	0%	2%	0%	0%	-2%	0%
	TOTAL GLOBAL EQUITIES	**71%**	**63%**	**68%**	**-8%**	**-5%**	**79%**	**72%**	**76%**	**-7%**	**-4%**	**88%**	**79%**	**85%**	**-9%**	**-6%**
	U.S. Large Cap Equities	30%	34%	36%	4%	-2%	31%	34%	36%	3%	-2%	28%	29%	31%	1%	-2%
	U.S. Mid Cap Equities	13%	13%	17%	0%	-4%	14%	14%	19%	0%	-5%	16%	16%	20%	0%	-4%
	U.S. Small Cap Equities	8%	0%	5%	-8%	-5%	10%	4%	7%	-6%	-3%	13%	7%	13%	-6%	-6%
	Developed Market Ex-U.S. Equities	11%	11%	5%	0%	6%	12%	12%	6%	0%	6%	16%	16%	10%	0%	6%
	Emerging Market Equities	9%	5%	5%	-4%	0%	12%	8%	8%	-4%	0%	15%	11%	11%	-4%	0%
	TOTAL GLOBAL REAL ASSETS	**5%**	**7%**	**7%**	**2%**	**0%**	**5%**	**7%**	**7%**	**2%**	**0%**	**5%**	**7%**	**7%**	**2%**	**0%**
	Commodities	5%	7%	7%	2%	0%	5%	7%	7%	2%	0%	5%	7%	7%	2%	0%

Source: Wells Fargo Investment Institute, April 21, 2023. Evenweight includes a +/- 100 basis points band around strategic allocation. One hundred basis points = 1.00%. Strategic allocations as of July 2022. Strategic allocations are updated annually. Tactical allocations are updated periodically. *Wells Fargo Advisors only. Asset allocation and diversification are investment methods used to manage risk. They do not assure or guarantee better performance and cannot eliminate the risk of investment losses. Your individual allocation may be different than the strategic long-term allocation above due to your unique individual circumstances, but is targeted to be in the allocation ranges detailed. The asset allocation reflected above may fluctuate based on asset values, portfolio decisions, and account needs.

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Forecasts are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

Asset allocation and diversification do not guarantee better performance and cannot eliminate the risk of investment losses.

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. 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. Investing in **gold, silver or other precious metals** involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

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Definitions

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.

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

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.

Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

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