

# WELLS FARGO

## Investment Institute

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### 2026 Midyear Outlook: Keeping discipline in noisy markets

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Markets love the idea of certainty but day-to-day end up chasing headlines. This year has brought a steady stream of news—geopolitical tensions, energy shocks, and rapid advances in artificial intelligence—leaving investors grasping at stories that are here today, gone tomorrow, and often oversimplify or exaggerate eventual market outcomes.

Our investment approach is grounded in cutting through that noise.

We focus on identifying potential opportunities in and positioning around long-term trends we believe can preserve and grow wealth over time. Our focus is disciplined investing – not a passive approach but an active one that looks to clarify and find the actionable opportunities around what we see as trends with persistence.

There are two, related trends we see through 2026.

The first is intensifying international competition. If last year’s competition featured international trade, this year’s focus puts the spotlight on the contest to dominate in developing artificial intelligence.

The second, related trend is a parallel race for the raw materials that make artificial intelligence, or AI, run, namely, energy, metals, and the structures to house the computing capacity.

In equities, we expect strong earnings growth to drive returns.

We favor U.S. large- and mid-cap equities, particularly companies with strong balance sheets, pricing power, and exposure to AI-driven investment trends. We also prefer sectors tied to AI-

related investment and infrastructure, such as Financials, Industrials, Utilities, and Information Technology.

In fixed income, the competition helps drive spending and borrowing, and the resulting higher bond yields underscore the importance of selectively adding high-quality bonds in long-term portfolios. Investment-grade credit, securitized assets, and municipal bonds may offer income, stability, and diversification in a higher-rate environment — but selectivity remains key.

In real assets, strong Energy performance does not look durable to us and so creates an opportunity to rotate exposure to Precious and Industrial Metals, which we believe may offer a greater upside through year-end.

And, finally, in alternatives, we see value in disciplined, diversified strategies — including hedge funds and private capital — that can help manage volatility while providing exposure to long-term themes like AI infrastructure and innovation.

For more on our views on the rest of the year and beyond, please read our special report: *2026 Midyear Outlook: Keeping discipline in noisy markets.*

#### **Asset Class Risks**

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. Investing in **foreign securities** presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. 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. **Sector** investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. **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. **Municipal** bonds offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income. Real assets are subject to the risks associated with real estate, commodities and other investments and may not be appropriate for all investors. In addition to the risks associated with investment in debt securities, investments in **mortgage-backed securities** will be subject to prepayment, extension and call risks. Changes in prepayments may significantly affect yield, average life and expected maturity. **Real assets** are subject to the risks associated with **real estate, commodities** and other investments and may not be appropriate for all investors. Investing in gold, silver or other **precious metals & specialty metals** involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry.

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.

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