

Changing Guidance and Exposure for an Evolving Slowdown

Investment Strategy Team

- Guidance change
- Forecast change
- Allocation change

Guidance changes

- » *Global Equities: We are lowering our guidance on U.S. Large Cap and Mid Cap Equities from favorable to neutral.*
- » *Global Fixed Income: We are moving Commercial Mortgage Backed Securities (CMBS) from unfavorable to neutral, and Bank Loans from neutral to unfavorable.*

Forecast changes

- » *Global Economy: We are decreasing our 2019 year-end target for eurozone and developed market gross domestic product (GDP) growth and inflation, and we are raising the 2019 year-end target for the U.S. unemployment rate.*
- » *Global Fixed Income: We are reducing our 2019 year-end targets for the 10-year U.S. Treasury yield, the 30-year Treasury yield, and the federal funds rate.*

Allocation changes

- » *We favor a modest reallocation from U.S. Large Cap Equities to Cash Alternatives. The charts at the end of this report list specific allocations by investment objective.*

Table 1. Revised 2019 economic forecast and market targets

	New 2019 year-end targets	Previous 2019 year-end targets
Global economy		
Eurozone GDP growth	1.2%	1.6%
Developed market GDP growth	1.9%	2.0%
Eurozone inflation	1.5%	1.7%
Developed market inflation	1.8%	1.9%
U.S. unemployment rate	3.7%	3.4%
Global fixed income		
10-year U.S. Treasury yield	2.75%-3.25%	3.00%-3.50%
30-year U.S. Treasury yield	2.75%-3.25%	3.00%-3.50%
Fed funds rate	2.50%-2.75%	2.75%-3.00%

Source: Wells Fargo Investment Institute, March 7, 2019.

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

Global equity markets are 10%-20% higher so far this year, helped along by encouraging political developments and by the fading economic recession fears of late 2018. We still believe that the U.S. and global economies and corporate earnings will grow in 2019—and that interest rates and longer-term Treasury yields will rise into our target ranges. However, the global economy’s soft patch is lingering, and we expect only small U.S. earnings gains in the first two quarters of 2019.

While investors evaluate how quickly economic and earnings growth may rebound, we believe market volatility is likely to persist. Thus, we are adjusting our 2019 economic forecasts and U.S. fixed-income rate targets and lowering our guidance on U.S. Large and Mid Cap Equities to neutral. We also are reallocating from Large Cap Equities into Cash Alternatives.

In removing our overallocation to Large Cap Equities, we are not implying a negative view. A neutral stance still involves a full allocation to our strategic targets. Rather, we feel our neutral stance is a way to manage risk actively while the timing and strength of fundamental drivers remain uncertain and volatility is likely.

Economic forecasts

The global economic slowdown that began in late 2018 is unlikely to become a recession this year, but the data still are weakening. The latest international trade data, from December 2018, suggest that global trade will slow further in 2019. Other international measures of current activity have turned negative, and many indicators now are worse than market participants had expected. Manufacturer sentiment and measures of future activity, such as new orders, still are declining. Chinese economic stimulus measures, including those so far this year, are likely to stabilize China’s growth, but they may not be enough to contribute to global economic growth.

Europe’s economy is slowing by more than we had expected when we revised our forecasts in January. Business and consumer sentiment has weakened further since early January, and the latest data show spending retrenchment and deepening political indecision. However, we do anticipate greater political clarity—and eventually stronger spending—which could receive support once the U.K. finalizes the terms of its exit from the European Union. We also foresee that slower inflation will accompany Europe’s slower pace of economic activity.

We have arrived at three conclusions:

- 1) International trade and forward-looking economic data still are weakening (particularly in Europe).
- 2) China’s growth should stabilize, but its economic stimulus probably cannot lift the whole world economy.
- 3) The U.S. economy seems stable, but an international slowdown eventually could spill over to the U.S.

For now, our base case is that global growth will recover later this year; that the U.S. dollar will depreciate modestly; and that we should only lower our expectation for eurozone economic growth and inflation at this time.

Equities

We continue to expect 7% earnings per share (EPS) growth for the S&P 500 Index and 4% EPS growth for the Russell Midcap Index this year. The main differences since our January review are that valuations now appear to be at fair levels, and markets are at an inflection point—if global economic growth rebounds quickly, our 12-month earnings and valuations estimates could rise, and an opportunity may result to raise targets and exposure. A more prolonged slowdown, however, could lead to a less constructive view. We are taking a more neutral approach while these divergent possibilities remain uncertain.

For additional perspective, we downgraded U.S. Small Cap Equities in January and reallocated from this asset class into fixed income, because of a divergence between market optimism and fundamentals. We now are extending our caution. At this time, we are downgrading U.S. Large Cap and Mid Cap Equities from favorable to neutral, and reallocating capital from Large Caps to Cash Alternatives.

Fixed Income

Significant changes have occurred in fixed-income markets since January. First, the Federal Reserve (Fed) has dramatically changed its tone about future rate hikes—from “gradual” rate hikes in December to a stance of “patience” in January. The Fed has shifted its focus from a mostly data-driven approach to one that relies somewhat more on financial conditions and market volatility. Furthermore, in our opinion, a slower-growing eurozone economy is likely to encourage buying of higher-yielding U.S. Treasury securities—and thereby keep U.S. bond yields lower than we previously had anticipated.

Thus, we are lowering our 2019 year-end federal funds rate, 10-year, and 30-year U.S. Treasury yield targets by 25 basis points each (or 0.25%).¹ This change implies only one Fed rate hike in 2019 (previously we had forecast two)—which we project in the second half of the year. We still expect that the Fed will end the rate hike cycle this year, but there is a risk that the Fed may make one final rate hike in early 2020. Additionally, the Fed is likely to slow or end its balance sheet roll-off near year-end; this should provide more support for lower yields than was previously anticipated.

We continue to project a positively sloped yield curve (i.e., higher yields for longer maturities). We do expect that yield curve volatility and the risk of yield curve inversion will remain heightened, especially if renewed risk-off sentiment depresses longer-term rates further. We still expect moderately positive U.S. economic growth and inflation. In our opinion, these developments should drive Treasury yields higher, to our new target ranges, and consistent with our current rating of unfavorable on U.S. Taxable Investment Grade Fixed Income.

Our forecast for a single Fed interest-rate hike in 2019 exceeds the market consensus for no rate hikes in 2019 (and even a rate cut). We believe that the market has overreacted to the change in Fed tone, and we expect the Fed debate to range between

¹ 100 basis points equals 1%.

no 2019 rate hikes and when to hike next. We believe that the Fed will not seriously consider a rate cut this year. If, as we expect, the market eventually adjusts its expectations to a single 2019 Fed rate hike, then that adjustment introduces the possibility of additional market volatility.

We also are making guidance changes to two fixed-income sectors, as follows:

Moving Bank Loans from neutral to unfavorable: Bank Loans' coupons reset to higher-interest-rate index settings as rates rise. This is a feature that can partially mitigate rising rates. Thus, if the Fed moderates its future rate increases, Bank Loans may offer less compelling value. Other negative factors include heavy new issuance volume, and declining covenant and subordination protections supporting recent transactions. Thus, we are downgrading Bank Loans. Reducing their allocations aligns with our overall unfavorable rating on high-yield fixed income instruments.

Moving Commercial Mortgage Backed Securities (CMBS) from unfavorable to neutral: From a fundamental perspective, rising interest rates are a negative. Yet, this trend should matter less for CMBS than the positive of stronger economic growth and the potential for declining supply in the coming years. Valuations appear fair. We are now raising our guidance from unfavorable to neutral. This new rating aligns with the neutral guidance for the Securitized sector, of which the CMBS sector is a part.

Summary

Capital markets are at a crossroads: So far, the global equity rally generally has dismissed recession fears, but the economic and earnings fundamentals are still uncertain. Such is the nature of retracements after indiscriminate sell-offs. Put another way, we see the global capital markets today at inflection points—levels from which prices could pivot higher or lower. The pivot direction ultimately should depend upon how the economic uncertainties resolve in the coming weeks and months.

These advice and guidance changes continue our risk-reduction pattern: In January, we adjusted Small Cap Equity targets lower and reduced their allocations. Today, with the near-term U.S. equity market risk broadening somewhat, we are again applying a selective one-step downgrade and a moderate cut in portfolio exposure. It is also worth noting that, given the rally in Large Cap Equities into our year-end target range, combined with the higher return we expect on cash and Cash Alternatives, we expect the capital movement from Large Cap Equities to Cash Alternatives to result in better risk-adjusted returns across many of our models. As in January, our focus remains cautious, but it does not imply a negative equity outlook. If the economic data continue to weaken, we may (further and selectively) reduce portfolio exposure to economic risk; alternatively, if the data strengthen, we could favor taking more risk in equities, and possibly reconsider higher equity targets.

We reiterate our most important advice: We now reiterate our 2019 Outlook report's main theme, "the end of easy." The asset-price trends that advanced easily and without much interruption until 2018 were unusually long; but they now appear to be over. Looking ahead, we expect further equity market gains, although political events, rising interest rates, and concerns about the aging economic expansion could disrupt sentiment periodically. Above all, risk and reward are now changing more quickly, and investors may need to adjust portfolio positioning more often.

Four Asset Groups: Fixed Income, Equities, Real Assets, Alternative Investments

Updated for revised capital market assumptions as of 7/17/18 and tactical tilt as of March 7, 2019

	CONSERVATIVE				MODERATE				AGGRESSIVE				
	Strategic	Tactical	Adjustment	Trade	Strategic	Tactical	Adjustment	Trade	Strategic	Tactical	Adjustment	Trade	
INCOME	CASH ALTERNATIVES	3.0%	6.0%	3.0%	3.0%	6.0%	3.0%	3.0%	3.0%	6.0%	3.0%	3.0%	
	TOTAL GLOBAL FIXED INCOME	73.0%	70.0%	-3.0%	0.0%	60.0%	59.0%	-1.0%	0.0%	51.0%	53.0%	2.0%	0.0%
	U.S. Taxable Investment Grade Fixed Income	56.0%	57.0%	1.0%	0.0%	42.0%	43.0%	1.0%	0.0%	30.0%	34.0%	4.0%	0.0%
	Short Term Taxable	20.0%	25.0%	5.0%		12.0%	18.0%	6.0%		2.0%	7.0%	5.0%	
	Intermediate Taxable	31.0%	30.0%	-1.0%		23.0%	22.0%	-1.0%		19.0%	21.0%	2.0%	
	Long Term Taxable	5.0%	2.0%	-3.0%		7.0%	3.0%	-4.0%		9.0%	6.0%	-3.0%	
	High Yield Taxable Fixed Income	6.0%	4.0%	-2.0%		7.0%	5.0%	-2.0%		8.0%	6.0%	-2.0%	
	Developed Market Ex-U.S. Fixed Income	8.0%	4.0%	-4.0%		6.0%	2.0%	-4.0%		5.0%	0.0%	-5.0%	
	Emerging Market Fixed Income	3.0%	5.0%	2.0%		5.0%	9.0%	4.0%		8.0%	13.0%	5.0%	
	TOTAL GLOBAL EQUITIES	8.0%	8.0%	0.0%	-3.0%	20.0%	18.0%	-2.0%	-3.0%	25.0%	23.0%	-2.0%	-3.0%
	U.S. Large Cap Equities	4.0%	4.0%	0.0%	-3.0%	10.0%	10.0%	0.0%	-3.0%	11.0%	11.0%	0.0%	-3.0%
	U.S. Mid Cap Equities	2.0%	2.0%	0.0%		4.0%	4.0%	0.0%		6.0%	6.0%	0.0%	
	U.S. Small Cap Equities	0.0%	0.0%	0.0%		2.0%	0.0%	-2.0%		4.0%	2.0%	-2.0%	
	Developed Market Ex-U.S. Equities	2.0%	2.0%	0.0%		4.0%	4.0%	0.0%		4.0%	4.0%	0.0%	
	Emerging Market Equities	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	
	TOTAL GLOBAL REAL ASSETS	5.0%	5.0%	0.0%	0.0%	6.0%	6.0%	0.0%	0.0%	10.0%	7.0%	-3.0%	0.0%
	Public Real Estate	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		3.0%	0.0%	-3.0%	
	Private Real Estate	5.0%	5.0%	0.0%		6.0%	6.0%	0.0%		7.0%	7.0%	0.0%	
	Commodities	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	
	TOTAL ALTERNATIVE INVESTMENTS	11.0%	11.0%	0.0%	0.0%	11.0%	11.0%	0.0%	0.0%	11.0%	11.0%	0.0%	0.0%
	HF - Relative Value	5.0%	5.0%	0.0%		5.0%	5.0%	0.0%		5.0%	5.0%	0.0%	
HF - Macro	3.0%	3.0%	0.0%		3.0%	3.0%	0.0%		3.0%	3.0%	0.0%		
HF - Event Driven	3.0%	3.0%	0.0%		3.0%	3.0%	0.0%		3.0%	3.0%	0.0%		
HF - Equity Hedge	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		
Private Equity	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		
GROWTH AND INCOME	CASH ALTERNATIVES	3.0%	6.0%	3.0%	3.0%	6.0%	3.0%	3.0%	3.0%	6.0%	3.0%	3.0%	
	TOTAL GLOBAL FIXED INCOME	39.0%	38.0%	-1.0%	0.0%	29.0%	28.0%	-1.0%	0.0%	21.0%	21.0%	0.0%	0.0%
	U.S. Taxable Investment Grade Fixed Income	25.0%	28.0%	3.0%	0.0%	15.0%	18.0%	3.0%	0.0%	7.0%	10.0%	3.0%	0.0%
	Short Term Taxable	4.0%	11.0%	7.0%		0.0%	6.0%	6.0%		0.0%	6.0%	6.0%	
	Intermediate Taxable	14.0%	14.0%	0.0%		10.0%	10.0%	0.0%		2.0%	2.0%	0.0%	
	Long Term Taxable	7.0%	3.0%	-4.0%		5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%	
	High Yield Taxable Fixed Income	6.0%	2.0%	-4.0%		6.0%	0.0%	-6.0%		6.0%	0.0%	-6.0%	
	Developed Market Ex-U.S. Fixed Income	3.0%	0.0%	-3.0%		2.0%	0.0%	-2.0%		2.0%	0.0%	-2.0%	
	Emerging Market Fixed Income	5.0%	8.0%	3.0%		6.0%	10.0%	4.0%		6.0%	11.0%	5.0%	
	TOTAL GLOBAL EQUITIES	32.0%	33.0%	1.0%	-3.0%	40.0%	41.0%	1.0%	-3.0%	48.0%	48.0%	0.0%	-3.0%
	U.S. Large Cap Equities	14.0%	14.0%	0.0%	-3.0%	18.0%	18.0%	0.0%	-3.0%	22.0%	22.0%	0.0%	-3.0%
	U.S. Mid Cap Equities	6.0%	6.0%	0.0%		7.0%	7.0%	0.0%		8.0%	8.0%	0.0%	
	U.S. Small Cap Equities	4.0%	2.0%	-2.0%		5.0%	2.0%	-3.0%		6.0%	3.0%	-3.0%	
	Developed Market Ex-U.S. Equities	5.0%	5.0%	0.0%		6.0%	6.0%	0.0%		7.0%	7.0%	0.0%	
	Emerging Market Equities	3.0%	6.0%	3.0%		4.0%	8.0%	4.0%		5.0%	8.0%	3.0%	
	TOTAL GLOBAL REAL ASSETS	10.0%	7.0%	-3.0%	0.0%	11.0%	8.0%	-3.0%	0.0%	11.0%	8.0%	-3.0%	0.0%
	Public Real Estate	3.0%	0.0%	-3.0%		3.0%	0.0%	-3.0%		3.0%	0.0%	-3.0%	
	Private Real Estate	5.0%	5.0%	0.0%		6.0%	6.0%	0.0%		6.0%	6.0%	0.0%	
	Commodities	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		2.0%	2.0%	0.0%	
	TOTAL ALTERNATIVE INVESTMENTS	16.0%	16.0%	0.0%	0.0%	17.0%	17.0%	0.0%	0.0%	17.0%	17.0%	0.0%	0.0%
	HF - Relative Value	4.0%	4.0%	0.0%		3.0%	3.0%	0.0%		2.0%	2.0%	0.0%	
HF - Macro	4.0%	4.0%	0.0%		3.0%	3.0%	0.0%		3.0%	3.0%	0.0%		
HF - Event Driven	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		
HF - Equity Hedge	0.0%	0.0%	0.0%		2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		
Private Equity	6.0%	6.0%	0.0%		7.0%	7.0%	0.0%		8.0%	8.0%	0.0%		
GROWTH	CASH ALTERNATIVES	2.0%	5.0%	3.0%	3.0%	5.0%	3.0%	3.0%	3.0%	2.0%	2.0%	0.0%	0.0%
	TOTAL GLOBAL FIXED INCOME	14.0%	15.0%	1.0%	0.0%	9.0%	8.0%	-1.0%	0.0%	4.0%	6.0%	2.0%	0.0%
	U.S. Taxable Investment Grade Fixed Income	4.0%	6.0%	2.0%	0.0%	2.0%	4.0%	2.0%	0.0%	0.0%	4.0%	4.0%	0.0%
	Short Term Taxable	0.0%	6.0%	6.0%		0.0%	4.0%	4.0%		0.0%	4.0%	4.0%	
	Intermediate Taxable	2.0%	0.0%	-2.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	
	Long Term Taxable	2.0%	0.0%	-2.0%		2.0%	0.0%	-2.0%		0.0%	0.0%	0.0%	
	High Yield Taxable Fixed Income	5.0%	0.0%	-5.0%		4.0%	0.0%	-4.0%		2.0%	0.0%	-2.0%	
	Developed Market Ex-U.S. Fixed Income	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	
	Emerging Market Fixed Income	5.0%	9.0%	4.0%		3.0%	4.0%	1.0%		2.0%	2.0%	0.0%	
	TOTAL GLOBAL EQUITIES	56.0%	55.0%	-1.0%	-3.0%	63.0%	64.0%	1.0%	-3.0%	70.0%	71.0%	1.0%	0.0%
	U.S. Large Cap Equities	24.0%	24.0%	0.0%	-3.0%	24.0%	24.0%	0.0%	-3.0%	24.0%	24.0%	0.0%	
	U.S. Mid Cap Equities	9.0%	9.0%	0.0%		10.0%	10.0%	0.0%		12.0%	12.0%	0.0%	
	U.S. Small Cap Equities	7.0%	3.0%	-4.0%		8.0%	4.0%	-4.0%		9.0%	5.0%	-4.0%	
	Developed Market Ex-U.S. Equities	9.0%	9.0%	0.0%		11.0%	11.0%	0.0%		12.0%	12.0%	0.0%	
	Emerging Market Equities	7.0%	10.0%	3.0%		10.0%	15.0%	5.0%		13.0%	18.0%	5.0%	
	TOTAL GLOBAL REAL ASSETS	12.0%	9.0%	-3.0%	0.0%	12.0%	9.0%	-3.0%	0.0%	11.0%	8.0%	-3.0%	0.0%
	Public Real Estate	3.0%	0.0%	-3.0%		3.0%	0.0%	-3.0%		3.0%	0.0%	-3.0%	
	Private Real Estate	7.0%	7.0%	0.0%		7.0%	7.0%	0.0%		8.0%	8.0%	0.0%	
	Commodities	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		0.0%	0.0%	0.0%	
	TOTAL ALTERNATIVE INVESTMENTS	16.0%	16.0%	0.0%	0.0%	14.0%	14.0%	0.0%	0.0%	13.0%	13.0%	0.0%	0.0%
	HF - Relative Value	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	
HF - Macro	3.0%	3.0%	0.0%		2.0%	2.0%	0.0%		0.0%	0.0%	0.0%		
HF - Event Driven	2.0%	2.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		
HF - Equity Hedge	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		
Private Equity	9.0%	9.0%	0.0%		10.0%	10.0%	0.0%		11.0%	11.0%	0.0%		

Source: Wells Fargo Investment Institute, March 7, 2019. Evenweight includes a +/- 100 basis points band around strategic allocation. Strategic allocations as of July 2018. Strategic allocations are updated annually. Tactical allocations are updated periodically. *Alternative investments, such as hedge funds and private equity funds, are not suitable for all investors. They are speculative and involve a high degree of risk that is suitable 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.

Four Asset Groups: Fixed Income, Equities, Real Assets, Alternative Investments
(No Private Capital)

Updated for revised capital market assumptions as of 7/17/18 and tactical tilt as of March 7, 2019

	CONSERVATIVE				MODERATE				AGGRESSIVE				
	Strategic	Tactical	Adjustment	Trade	Strategic	Tactical	Adjustment	Trade	Strategic	Tactical	Adjustment	Trade	
INCOME	CASH ALTERNATIVES	3.0%	5.0%	2.0%	2.0%	3.0%	6.0%	3.0%	3.0%	3.0%	6.0%	3.0%	3.0%
	TOTAL GLOBAL FIXED INCOME	77.0%	77.0%	0.0%	0.0%	64.0%	64.0%	0.0%	0.0%	56.0%	59.0%	3.0%	0.0%
	U.S. Taxable Investment Grade Fixed Income	61.0%	64.0%	3.0%	0.0%	46.0%	47.0%	1.0%	0.0%	35.0%	38.0%	3.0%	0.0%
	Short Term Taxable	21.0%	24.0%	3.0%		14.0%	18.0%	4.0%		4.0%	9.0%	5.0%	
	Intermediate Taxable	35.0%	38.0%	3.0%		25.0%	26.0%	1.0%		21.0%	21.0%	0.0%	
	Long Term Taxable	5.0%	2.0%	-3.0%		7.0%	3.0%	-4.0%		10.0%	8.0%	-2.0%	
	High Yield Taxable Fixed Income	5.0%	3.0%	-2.0%		7.0%	5.0%	-2.0%		8.0%	6.0%	-2.0%	
	Developed Market Ex-U.S. Fixed Income	8.0%	4.0%	-4.0%		6.0%	2.0%	-4.0%		5.0%	2.0%	-3.0%	
	Emerging Market Fixed Income	3.0%	6.0%	3.0%		5.0%	10.0%	5.0%		8.0%	13.0%	5.0%	
	TOTAL GLOBAL EQUITIES	9.0%	9.0%	0.0%	-2.0%	16.0%	16.0%	0.0%	-3.0%	24.0%	21.0%	-3.0%	-3.0%
	U.S. Large Cap Equities	5.0%	5.0%	0.0%	-2.0%	10.0%	10.0%	0.0%	-3.0%	11.0%	11.0%	0.0%	-3.0%
	U.S. Mid Cap Equities	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		6.0%	6.0%	0.0%	
	U.S. Small Cap Equities	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		3.0%	0.0%	-3.0%	
	Developed Market Ex-U.S. Equities	2.0%	2.0%	0.0%		4.0%	4.0%	0.0%		4.0%	4.0%	0.0%	
	Emerging Market Equities	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	
	TOTAL GLOBAL REAL ASSETS	2.0%	0.0%	-2.0%	0.0%	5.0%	2.0%	-3.0%	0.0%	5.0%	2.0%	-3.0%	0.0%
	Public Real Estate	2.0%	0.0%	-2.0%		5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%	
	Commodities	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	
	TOTAL ALTERNATIVE INVESTMENTS	9.0%	9.0%	0.0%	0.0%	12.0%	12.0%	0.0%	0.0%	12.0%	12.0%	0.0%	0.0%
HF - Relative Value	6.0%	6.0%	0.0%		4.0%	4.0%	0.0%		4.0%	4.0%	0.0%		
HF - Macro	3.0%	3.0%	0.0%		5.0%	5.0%	0.0%		5.0%	5.0%	0.0%		
HF - Event Driven	0.0%	0.0%	0.0%		3.0%	3.0%	0.0%		3.0%	3.0%	0.0%		
HF - Equity Hedge	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		
GROWTH AND INCOME	CASH ALTERNATIVES	3.0%	6.0%	3.0%	3.0%	3.0%	6.0%	3.0%	3.0%	3.0%	6.0%	3.0%	3.0%
	TOTAL GLOBAL FIXED INCOME	41.0%	41.0%	0.0%	0.0%	31.0%	31.0%	0.0%	0.0%	23.0%	23.0%	0.0%	0.0%
	U.S. Taxable Investment Grade Fixed Income	29.0%	31.0%	2.0%	0.0%	17.0%	19.0%	2.0%	0.0%	9.0%	10.0%	1.0%	0.0%
	Short Term Taxable	4.0%	9.0%	5.0%		0.0%	6.0%	6.0%		0.0%	3.0%	3.0%	
	Intermediate Taxable	16.0%	16.0%	0.0%		11.0%	10.0%	-1.0%		4.0%	4.0%	0.0%	
	Long Term Taxable	9.0%	6.0%	-3.0%		6.0%	3.0%	-3.0%		5.0%	3.0%	-2.0%	
	High Yield Taxable Fixed Income	5.0%	3.0%	-2.0%		6.0%	3.0%	-3.0%		6.0%	2.0%	-4.0%	
	Developed Market Ex-U.S. Fixed Income	3.0%	0.0%	-3.0%		3.0%	0.0%	-3.0%		2.0%	0.0%	-2.0%	
	Emerging Market Fixed Income	4.0%	7.0%	3.0%		5.0%	9.0%	4.0%		6.0%	11.0%	5.0%	
	TOTAL GLOBAL EQUITIES	35.0%	35.0%	0.0%	-3.0%	44.0%	44.0%	0.0%	-3.0%	52.0%	52.0%	0.0%	-3.0%
	U.S. Large Cap Equities	13.0%	13.0%	0.0%	-3.0%	20.0%	20.0%	0.0%	-3.0%	22.0%	22.0%	0.0%	-3.0%
	U.S. Mid Cap Equities	7.0%	7.0%	0.0%		8.0%	8.0%	0.0%		9.0%	9.0%	0.0%	
	U.S. Small Cap Equities	6.0%	3.0%	-3.0%		6.0%	3.0%	-3.0%		8.0%	5.0%	-3.0%	
	Developed Market Ex-U.S. Equities	5.0%	5.0%	0.0%		5.0%	5.0%	0.0%		7.0%	7.0%	0.0%	
	Emerging Market Equities	4.0%	7.0%	3.0%		5.0%	8.0%	3.0%		6.0%	9.0%	3.0%	
	TOTAL GLOBAL REAL ASSETS	7.0%	4.0%	-3.0%	0.0%	7.0%	4.0%	-3.0%	0.0%	7.0%	4.0%	-3.0%	0.0%
	Public Real Estate	5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%	
	Commodities	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		2.0%	2.0%	0.0%	
	TOTAL ALTERNATIVE INVESTMENTS	14.0%	14.0%	0.0%	0.0%	15.0%	15.0%	0.0%	0.0%	15.0%	15.0%	0.0%	0.0%
HF - Relative Value	3.0%	3.0%	0.0%		3.0%	3.0%	0.0%		3.0%	3.0%	0.0%		
HF - Macro	6.0%	6.0%	0.0%		6.0%	6.0%	0.0%		6.0%	6.0%	0.0%		
HF - Event Driven	3.0%	3.0%	0.0%		4.0%	4.0%	0.0%		4.0%	4.0%	0.0%		
HF - Equity Hedge	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		
GROWTH	CASH ALTERNATIVES	2.0%	5.0%	3.0%	3.0%	2.0%	5.0%	3.0%	3.0%	2.0%	5.0%	3.0%	3.0%
	TOTAL GLOBAL FIXED INCOME	17.0%	17.0%	0.0%	0.0%	8.0%	7.0%	-1.0%	0.0%	6.0%	7.0%	1.0%	0.0%
	U.S. Taxable Investment Grade Fixed Income	7.0%	8.0%	1.0%	0.0%	2.0%	4.0%	2.0%	0.0%	0.0%	4.0%	4.0%	0.0%
	Short Term Taxable	0.0%	4.0%	4.0%		0.0%	4.0%	4.0%		0.0%	4.0%	4.0%	
	Intermediate Taxable	4.0%	4.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	
	Long Term Taxable	3.0%	0.0%	-3.0%		2.0%	0.0%	-2.0%		0.0%	0.0%	0.0%	
	High Yield Taxable Fixed Income	5.0%	0.0%	-5.0%		3.0%	0.0%	-3.0%		3.0%	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%	0.0%	0.0%	
	Emerging Market Fixed Income	5.0%	9.0%	4.0%		3.0%	3.0%	0.0%		3.0%	3.0%	0.0%	
	TOTAL GLOBAL EQUITIES	62.0%	62.0%	0.0%	-3.0%	71.0%	72.0%	1.0%	-3.0%	82.0%	83.0%	1.0%	-3.0%
	U.S. Large Cap Equities	24.0%	24.0%	0.0%	-3.0%	25.0%	25.0%	0.0%	-3.0%	25.0%	25.0%	0.0%	-3.0%
	U.S. Mid Cap Equities	11.0%	11.0%	0.0%		13.0%	13.0%	0.0%		16.0%	16.0%	0.0%	
	U.S. Small Cap Equities	10.0%	6.0%	-4.0%		12.0%	8.0%	-4.0%		15.0%	11.0%	-4.0%	
	Developed Market Ex-U.S. Equities	9.0%	9.0%	0.0%		11.0%	11.0%	0.0%		13.0%	13.0%	0.0%	
	Emerging Market Equities	8.0%	12.0%	4.0%		10.0%	15.0%	5.0%		13.0%	18.0%	5.0%	
	TOTAL GLOBAL REAL ASSETS	7.0%	4.0%	-3.0%	0.0%	7.0%	4.0%	-3.0%	0.0%	5.0%	0.0%	-5.0%	0.0%
	Public Real Estate	5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%		5.0%	0.0%	-5.0%	
	Commodities	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		0.0%	0.0%	0.0%	
	TOTAL ALTERNATIVE INVESTMENTS	12.0%	12.0%	0.0%	0.0%	12.0%	12.0%	0.0%	0.0%	5.0%	5.0%	0.0%	0.0%
HF - Relative Value	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		0.0%	0.0%	0.0%		
HF - Macro	6.0%	6.0%	0.0%		6.0%	6.0%	0.0%		3.0%	3.0%	0.0%		
HF - Event Driven	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		0.0%	0.0%	0.0%		
HF - Equity Hedge	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		

Source: Wells Fargo Investment Institute, March 7, 2019. Evenweight includes a +/-100 basis points band around strategic allocation. Strategic allocations as of July 2018. Strategic allocations are updated annually. Tactical allocations are updated periodically. *Alternative investments, such as hedge funds and private equity funds, are not suitable for all investors. They are speculative and involve a high degree of risk that is suitable 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.

Three Asset Groups: Fixed Income, Equities, Real Assets

Updated for revised capital market assumptions as of 7/17/18 and tactical tilt as of March 7, 2019

	CONSERVATIVE				MODERATE				AGGRESSIVE				
	Strategic	Tactical	Adjustment	Trade	Strategic	Tactical	Adjustment	Trade	Strategic	Tactical	Adjustment	Trade	
INCOME	CASH ALTERNATIVES	3.0%	5.0%	2.0%	2.0%	3.0%	6.0%	3.0%	3.0%	3.0%	6.0%	3.0%	3.0%
	TOTAL GLOBAL FIXED INCOME	85.0%	85.0%	0.0%	0.0%	72.0%	74.0%	2.0%	0.0%	64.0%	66.0%	2.0%	0.0%
	U.S. Taxable Investment Grade Fixed Income	71.0%	73.0%	2.0%	0.0%	56.0%	58.0%	2.0%	0.0%	43.0%	45.0%	2.0%	0.0%
	Short Term Taxable	28.0%	31.0%	3.0%		19.0%	25.0%	6.0%		8.0%	13.0%	5.0%	
	Intermediate Taxable	38.0%	40.0%	2.0%		30.0%	30.0%	0.0%		25.0%	25.0%	0.0%	
	Long Term Taxable	5.0%	2.0%	-3.0%		7.0%	3.0%	-4.0%		10.0%	7.0%	-3.0%	
	High Yield Taxable Fixed Income	5.0%	3.0%	-2.0%		6.0%	4.0%	-2.0%		8.0%	6.0%	-2.0%	
	Developed Market Ex-U.S. Fixed Income	6.0%	3.0%	-3.0%		5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%	
	Emerging Market Fixed Income	3.0%	6.0%	3.0%		5.0%	10.0%	5.0%		8.0%	13.0%	5.0%	
	TOTAL GLOBAL EQUITIES	8.0%	8.0%	0.0%	-2.0%	20.0%	18.0%	-2.0%	-3.0%	28.0%	26.0%	-2.0%	-3.0%
	U.S. Large Cap Equities	4.0%	4.0%	0.0%	-2.0%	12.0%	12.0%	0.0%	-3.0%	15.0%	15.0%	0.0%	-3.0%
	U.S. Mid Cap Equities	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		4.0%	4.0%	0.0%	
	U.S. Small Cap Equities	0.0%	0.0%	0.0%		2.0%	0.0%	-2.0%		4.0%	2.0%	-2.0%	
	Developed Market Ex-U.S. Equities	2.0%	2.0%	0.0%		4.0%	4.0%	0.0%		5.0%	5.0%	0.0%	
	Emerging Market Equities	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%	
TOTAL GLOBAL REAL ASSETS	4.0%	2.0%	-2.0%	0.0%	5.0%	2.0%	-3.0%	0.0%	5.0%	2.0%	-3.0%	0.0%	
Public Real Estate	4.0%	2.0%	-2.0%		5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%		
Commodities	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		
GROWTH AND INCOME	CASH ALTERNATIVES	3.0%	6.0%	3.0%	3.0%	3.0%	6.0%	3.0%	3.0%	3.0%	6.0%	3.0%	3.0%
	TOTAL GLOBAL FIXED INCOME	51.0%	51.0%	0.0%	0.0%	41.0%	40.0%	-1.0%	0.0%	33.0%	32.0%	-1.0%	0.0%
	U.S. Taxable Investment Grade Fixed Income	37.0%	39.0%	2.0%	0.0%	27.0%	28.0%	1.0%	0.0%	17.0%	18.0%	1.0%	0.0%
	Short Term Taxable	7.0%	12.0%	5.0%		4.0%	11.0%	7.0%		2.0%	7.0%	5.0%	
	Intermediate Taxable	20.0%	20.0%	0.0%		16.0%	14.0%	-2.0%		11.0%	11.0%	0.0%	
	Long Term Taxable	10.0%	7.0%	-3.0%		7.0%	3.0%	-4.0%		4.0%	0.0%	-4.0%	
	High Yield Taxable Fixed Income	6.0%	4.0%	-2.0%		6.0%	3.0%	-3.0%		7.0%	3.0%	-4.0%	
	Developed Market Ex-U.S. Fixed Income	3.0%	0.0%	-3.0%		3.0%	0.0%	-3.0%		3.0%	0.0%	-3.0%	
	Emerging Market Fixed Income	5.0%	8.0%	3.0%		5.0%	9.0%	4.0%		6.0%	11.0%	5.0%	
	TOTAL GLOBAL EQUITIES	39.0%	39.0%	0.0%	-3.0%	49.0%	50.0%	1.0%	-3.0%	57.0%	58.0%	1.0%	-3.0%
	U.S. Large Cap Equities	17.0%	17.0%	0.0%	-3.0%	21.0%	21.0%	0.0%	-3.0%	25.0%	25.0%	0.0%	-3.0%
	U.S. Mid Cap Equities	7.0%	7.0%	0.0%		9.0%	9.0%	0.0%		11.0%	11.0%	0.0%	
	U.S. Small Cap Equities	6.0%	3.0%	-3.0%		8.0%	5.0%	-3.0%		8.0%	5.0%	-3.0%	
	Developed Market Ex-U.S. Equities	5.0%	5.0%	0.0%		6.0%	6.0%	0.0%		7.0%	7.0%	0.0%	
	Emerging Market Equities	4.0%	7.0%	3.0%		5.0%	9.0%	4.0%		6.0%	10.0%	4.0%	
TOTAL GLOBAL REAL ASSETS	7.0%	4.0%	-3.0%	0.0%	7.0%	4.0%	-3.0%	0.0%	7.0%	4.0%	-3.0%	0.0%	
Public Real Estate	5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%		
Commodities	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		
GROWTH	CASH ALTERNATIVES	2.0%	5.0%	3.0%	3.0%	2.0%	5.0%	3.0%	3.0%	2.0%	5.0%	3.0%	3.0%
	TOTAL GLOBAL FIXED INCOME	23.0%	23.0%	0.0%	0.0%	16.0%	16.0%	0.0%	0.0%	7.0%	6.0%	-13.0%	0.0%
	U.S. Taxable Investment Grade Fixed Income	14.0%	14.0%	0.0%	0.0%	8.0%	10.0%	2.0%	0.0%	3.0%	4.0%	-7.0%	0.0%
	Short Term Taxable	4.0%	10.0%	6.0%		2.0%	7.0%	5.0%		0.0%	4.0%	-4.0%	
	Intermediate Taxable	6.0%	4.0%	-2.0%		3.0%	3.0%	0.0%		0.0%	0.0%	0.0%	
	Long Term Taxable	4.0%	0.0%	-4.0%		3.0%	0.0%	-3.0%		3.0%	0.0%	-3.0%	
	High Yield Taxable Fixed Income	4.0%	2.0%	-2.0%		3.0%	0.0%	-3.0%		2.0%	0.0%	-2.0%	
	Developed Market Ex-U.S. Fixed Income	2.0%	0.0%	-2.0%		2.0%	0.0%	-2.0%		0.0%	0.0%	0.0%	
	Emerging Market Fixed Income	3.0%	7.0%	4.0%		3.0%	6.0%	3.0%		2.0%	2.0%	-4.0%	
	TOTAL GLOBAL EQUITIES	68.0%	68.0%	0.0%	-3.0%	75.0%	75.0%	0.0%	-3.0%	84.0%	85.0%	1.0%	-3.0%
	U.S. Large Cap Equities	29.0%	29.0%	0.0%	-3.0%	29.0%	29.0%	0.0%	-3.0%	27.0%	27.0%	0.0%	-3.0%
	U.S. Mid Cap Equities	12.0%	12.0%	0.0%		13.0%	13.0%	0.0%		15.0%	15.0%	0.0%	
	U.S. Small Cap Equities	10.0%	6.0%	-4.0%		13.0%	9.0%	-4.0%		14.0%	10.0%	-4.0%	
	Developed Market Ex-U.S. Equities	9.0%	9.0%	0.0%		10.0%	10.0%	0.0%		14.0%	14.0%	0.0%	
	Emerging Market Equities	8.0%	12.0%	4.0%		10.0%	14.0%	4.0%		14.0%	19.0%	5.0%	
TOTAL GLOBAL REAL ASSETS	7.0%	4.0%	-3.0%	0.0%	7.0%	4.0%	-3.0%	0.0%	7.0%	4.0%	-3.0%	0.0%	
Public Real Estate	5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%		5.0%	2.0%	-3.0%		
Commodities	2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		2.0%	2.0%	0.0%		

Source: Wells Fargo Investment Institute, March 7, 2019. Evenweight includes a +/- 100 basis points band around strategic allocation. Strategic allocations are updated annually. Tactical allocations are updated periodically.

Capital Market Assumptions are estimates of how asset classes and combinations of classes may respond during various market environments. Assumptions are not designed to predict actual performance, and there are no assurances that any estimates used will be achieved. Asset allocation, including strategic and tactical asset allocation, do not guarantee investment returns or eliminate risk of loss.

Forecasts, targets and estimates discussed in this report are based on certain assumptions and on our current views of market and economic conditions, which are subject to change

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. **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.

Bank loans are subject to interest rate and credit risk. They are generally below investment grade and are subject to defaults and downgrades. These loans have the potential to hedge exposure to interest-rate risk but they also carry significant credit and call-risk. Call risk is the risk that the issuer will redeem the issue prior to maturity.

Commercial Mortgage Backed Securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

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 suitable 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

An index is unmanaged and not available for direct investment.

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

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.

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