

Executive Summary

Asset Allocation Strategy

November 18, 2019

Preparing for the next downturn

As of October 2019, the U.S. economy marked its longest expansion in U.S. recorded history since the mid-19th century. Over this 126-month period, the S&P 500 Index has gained nearly 350% on a total return basis. The sheer length of these two runs has raised investor concern that an end to the good times may be on the horizon.

Although bear markets are a normal part of market cycles, they are difficult to time. An equity market decline does not necessarily predict a bear market or recession. The months leading up to an economic contraction often have been marked by volatility, causing investor anxiety and market outflows. Yet, U.S. equity returns typically have been at their peaks as the economy approaches a recession. Additionally, missing the 10 best days for the S&P 500 Index over the past 30 years would have significantly reduced return potential. Because it is difficult for investors to time the market, we suggest planning for the next downturn, to avoid a fear-based reaction that could undermine long-term financial goals.

Bear markets have not always accompanied recessions. While they have tended to begin before recessions—they have not always done so. History often can guide investors, but each market cycle is unique. In our view, this expansion has endured because consumer caution has constrained spending and prevented household debt (as a percent of gross domestic product, or GDP) from rising to prior peaks. We do not expect these trends to continue indefinitely.

Risk factors for a potential downturn

Recessions are not easy to predict, but we believe that this cycle's headwinds provide investors with warning signs to monitor.

- *U.S. and international political disruption:* Geopolitical uncertainties such as the U.S.-China trade dispute, the growing U.S. political divide, Brexit, and Middle East and North Korea tensions may disrupt the U.S. and global economies.
- *Debt levels:* Absolute consumer and business debt levels have risen; household debt/GDP ratios are elevated compared to historical levels, but they remain lower than they were before the Great Recession.
- *Yield-curve inversion:* Rapidly growing demand for longer-term Treasury bonds recently drove long-term yields to levels below those of short-term debt securities. This often has been a predictive indicator for a recession and bears watching.
- *High-yield corporate debt spreads:* High-yield spreads (over Treasury yields) have fallen to low levels as investors search for yield. It may be time to prepare portfolios for any deterioration in fundamentals of lower-rated companies.

Preparing portfolios for a potential downturn

Bear markets and recessions are normal parts of any economic cycle. Investors who react out of fear can severely impair potential returns and financial goals. Instead, we favor a more proactive approach, taking control of portfolio exposure by thoughtfully and regularly rebalancing—while considering where diverging valuation and price may create excessive risk.

When investing ahead of a downturn, we believe that investors should diversify assets to help mitigate risk. This includes selecting asset classes both in the U.S. and overseas. Consistently rebalancing portfolio allocations back to strategic goals can help to prepare a portfolio for a correction. Further, managing cash and knowing what you own can assist in nimbly and strategically deploying assets when allocating investments.

Economic Summary: The advance release of third-quarter U.S. GDP beat expectations with a 1.9% annualized quarter-over-quarter growth rate—but reflecting some slowing from the 2.0% second-quarter pace. Personal consumption growth, at 2.9%, also beat expectations.

Fixed Income: Most fixed-income classes gained in October as the Federal Reserve (Fed) reduced rates once again while signaling a rate-change pause. Local-currency denominated emerging market (EM) debt led October returns (+3.2%) as EM bond prices rose and currencies gained versus the dollar. Investment-grade (IG) corporates and preferred stock also outperformed last month (+0.6% and 0.7%, respectively) in a more “risk-on” environment.

Equities: Despite a somewhat rocky start, October ended as a broadly positive month for all of the major equity classes. All of the major equity classes have posted double-digit year-to-date gains. Last month, U.S. large caps, mid caps, and small caps gained 2.2%, 1.1%, and 2.6%, respectively. Internationally, U.S.-dollar-denominated EM and developed market equities registered monthly gains of 4.2% and 3.6%, respectively.

Real Assets: October was a spooky month for master limited partnerships (MLPs), which had their worst monthly 2019 performance, despite flat oil prices. Yet, Commodities fared well with tailwinds that included a weaker dollar, positive trade headlines, and a more optimistic market growth outlook.

Alternative Investments*: Early estimates from Hedge Fund Research, Inc. indicate generally positive October returns. Equity Hedge managers rebounded from a difficult September—especially managers with sizable health care exposure. Within Relative Value, Structured Credit strategies generated slight gains, while the Distressed strategy underperformed within Event Driven. The Macro strategy also had a difficult month, driven by long fixed income positioning.

*Alternative investments 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. Please see the end of the report for important definitions and disclosures.

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

Ask your investment professional about the full edition of the Asset Allocation Strategy Report for more detailed information.

Wells Fargo Investment Institute Forecasts		
	2019 YE targets	2018
Global economy (%)		
Domestic GDP growth	2.3	2.9
Domestic inflation	1.7	1.9
Domestic unemployment rate	3.7	3.9
Global GDP growth	3.3	3.6
Developed market GDP growth	1.8	2.3
Developed market inflation	1.6	1.6
Emerging market GDP growth	4.4	4.5
Emerging market inflation	4.3	6.9
Eurozone GDP growth	1.2	1.2
Eurozone inflation	1.5	1.5
Global equities		
	2019 YE targets	Current
S&P 500 Index	2980 - 3080	3038
S&P 500 earnings per share (\$)	167	162
Russell Midcap® Index	2310 - 2410	2257
Russell Midcap earnings per share (\$)	128	124
Russell 2000 Index	1530 - 1630	1562
Russell 2000 earnings per share (\$)	65	62
MSCI EAFE Index	1875 - 1975	1955
MSCI EAFE earnings per share (\$)	135	132
MSCI Emerging Markets (EM) Index	960 - 1060	1042
MSCI EM earnings per share (\$)	84	82
Global fixed income (%)		
	2019 YE targets	Current
10-year U.S. Treasury yield	1.50 - 2.00	1.69
30-year U.S. Treasury yield	1.75 - 2.25	2.18
Fed funds rate	1.50 - 1.75	1.75
Global real assets (%)		
	2019 YE targets	Current
West Texas Intermediate crude oil price (\$ per barrel)	50 - 60	54
Brent crude oil price (\$ per barrel)	55 - 65	60
Gold price (\$ per troy ounce)	1,400 - 1,500	1,515
Commodities	*	—
Currencies		
	2019 YE targets	Current
Dollar/euro exchange rate	\$1.07-\$1.15	\$1.12
Yen/dollar exchange rate	¥101-¥111	¥108

Sources: FactSet, Bloomberg, International Monetary Fund, as of October 31, 2019. The 2019 targets are Wells Fargo Investment Institute forecasts, as of November 15, 2019. All 2018 data is as of December 31, 2018. Forecasts are based on certain assumptions and on our views of market and economic conditions, which are subject to change. See end of report for important definitions and disclosures. *Year-end target will commence in 2020.

Past performance is no guarantee of future results.

Total Returns (%)						
Index	MTD	QTD	YTD	1 year	3 year	5 year
Fixed income						
U.S. Taxable Investment Grade Fixed Income	0.3	0.3	8.8	11.5	3.3	3.2
High Yield Taxable Fixed Income	0.3	0.3	11.7	8.4	6.0	5.2
DM Ex-U.S. Fixed Income (Unhedged)	0.8	0.8	6.3	9.3	2.4	1.7
EM Fixed Income (U.S. dollar)	0.4	0.4	12.5	13.7	4.5	4.8
Equities						
U.S. Large Cap Equities	2.2	2.2	23.2	14.3	14.9	10.8
U.S. Mid Cap Equities	1.1	1.1	23.2	13.7	12.3	8.7
U.S. Small Cap Equities	2.6	2.6	17.2	4.9	11.0	7.4
DM Equities Ex-U.S. (U.S. dollar)	3.6	3.6	17.4	11.6	9.0	4.8
EM Equities (U.S. dollar)	4.2	4.2	10.7	12.3	7.8	3.3
Real assets						
Public Real Estate	2.5	2.5	23.7	21.5	9.6	6.9
Master Limited Partnerships	-6.2	-6.2	4.2	-6.4	-3.1	-9.0
Commodities (BCOM)	2.0	2.0	5.2	-2.6	-0.7	-6.7
Alternative investments						
Global Hedge Funds	0.4	0.4	7.2	4.1	4.1	3.1

Sources: Bloomberg Barclays, J.P. Morgan, Standard & Poor's, Russell Indices, MSCI Inc., FTSE, Alerian, Bloomberg, Hedge Fund Research, Inc.; as of October 31, 2019.

DM indicates Developed Market; EM indicates Emerging Market. Returns over one year are annualized. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** See end of report for important definitions and disclosures.

International Equity Market Strategy					
Region	Benchmark weight*	Regional guidance			
		Most unfavorable	Neutral	Most favorable	
Developed Market Ex-U.S. Equities		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Europe	61	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pacific	39	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Emerging Market Equities		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Asia	76	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Europe, Middle East and Africa	12	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Latin America	12	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

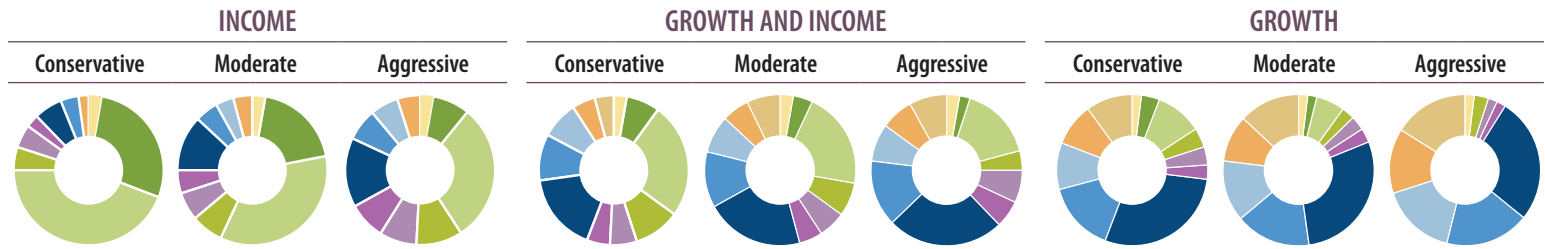
Source: Wells Fargo Investment Institute; as of November 15, 2019.

*Benchmarks are MSCI EAFE Index for DM and MSCI Emerging Markets Index for EM.

Strategic and Tactical Asset Allocation

Three asset groups:
fixed income, equities,
and real assets

STRATEGIC



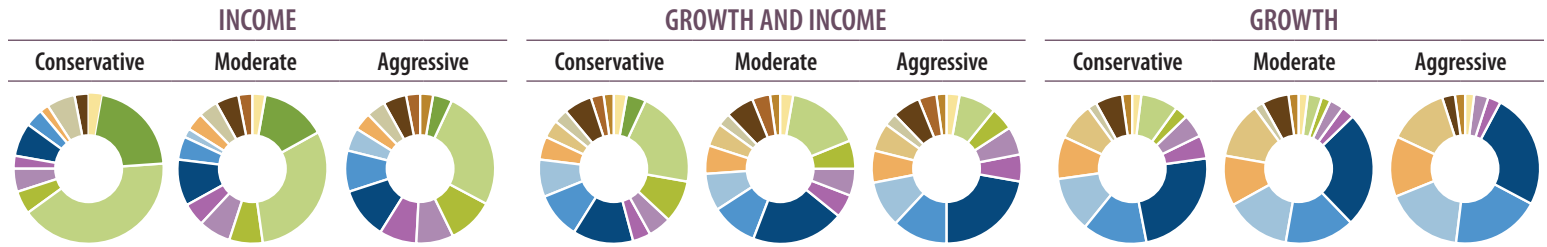
	INCOME		GROWTH AND INCOME		GROWTH	
	Conservative	Moderate	Conservative	Moderate	Conservative	Aggressive
	Strategic Tactical		Strategic Tactical		Strategic Tactical	
Cash Alternatives (%)	3.0	3.0	3.0	4.0	2.0	3.0
Total Fixed Income (%)	85.0	72.0	53.0	43.0	25.0	7.0
U.S. Short Term Taxable	28.0	19.0	7.0	4.0	4.0	0.0
U.S. Intermediate Term Taxable	44.0	35.0	25.0	21.0	10.0	0.0
U.S. Long Term Taxable	5.0	7.0	10.0	7.0	4.0	3.0
High Yield Taxable Fixed Income	5.0	2.0	6.0	3.0	4.0	0.0
Developed Market Ex-U.S. Fixed Income	0.0	0.0	0.0	0.0	0.0	0.0
Emerging Market Fixed Income	3.0	5.0	5.0	5.0	3.0	2.0
Total Equities (%)	12.0	25.0	44.0	54.0	73.0	91.0
U.S. Large Cap Equities	6.0	12.0	17.0	21.0	29.0	27.0
U.S. Mid Cap Equities	4.0	5.0	10.0	12.0	15.0	16.0
U.S. Small Cap Equities	0.0	2.0	8.0	5.0	10.0	9.0
Developed Market Ex-U.S. Equities	2.0	4.0	5.0	6.0	9.0	10.0
Emerging Market Equities	0.0	0.0	4.0	7.0	10.0	13.0
Total Real Assets (%)	0.0	0.0	0.0	0.0	0.0	0.0
Commodities	0.0	0.0	0.0	0.0	0.0	0.0

Strategic allocations are updated annually; last update was July 16, 2019. Tactical allocations are updated periodically; last update was November 15, 2019.

Strategic and Tactical Asset Allocation

Four asset groups:
fixed income, equities, real assets,
and alternative investments
(without private capital)

STRATEGIC



	INCOME		INCOME		INCOME		GROWTH AND INCOME		GROWTH AND INCOME		GROWTH AND INCOME		GROWTH		GROWTH		GROWTH	
	Conservative	Moderate	Aggressive	Conservative	Moderate	Aggressive	Conservative	Moderate	Aggressive	Conservative	Moderate	Aggressive	Conservative	Moderate	Aggressive	Conservative	Moderate	Aggressive
	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical	Strategic Tactical
Cash Alternatives (%)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0	3.0	4.0	3.0	4.0	2.0	2.0	2.0	3.0	2.0	2.0
Total Fixed Income (%)	75.0	75.0	64.0	64.0	56.0	57.0	43.0	43.0	33.0	33.0	25.0	25.0	21.0	23.0	11.0	12.0	6.0	8.0
U.S. Short Term Taxable	21.0	21.0	14.0	16.0	4.0	7.0	4.0	5.0	0.0	2.0	0.0	3.0	0.0	6.0	0.0	4.0	0.0	2.0
U.S. Intermediate Term Taxable	41.0	43.0	31.0	34.0	26.0	29.0	21.0	24.0	16.0	19.0	8.0	11.0	8.0	10.0	3.0	5.0	0.0	3.0
U.S. Long Term Taxable	5.0	5.0	7.0	6.0	10.0	9.0	9.0	7.0	6.0	4.0	5.0	3.0	3.0	2.0	2.0	0.0	0.0	0.0
High Yield Taxable Fixed Income	5.0	3.0	7.0	3.0	8.0	4.0	5.0	3.0	6.0	3.0	6.0	2.0	5.0	0.0	3.0	0.0	3.0	0.0
Developed Market Ex-U.S. Fixed Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Emerging Market Fixed Income	3.0	3.0	5.0	5.0	8.0	8.0	4.0	4.0	5.0	5.0	6.0	6.0	5.0	5.0	3.0	3.0	3.0	3.0
Total Equities (%)	13.0	13.0	21.0	21.0	29.0	28.0	40.0	39.0	49.0	48.0	57.0	56.0	67.0	65.0	77.0	75.0	87.0	85.0
U.S. Large Cap Equities	7.0	7.0	10.0	10.0	11.0	13.0	13.0	15.0	20.0	22.0	22.0	24.0	24.0	26.0	25.0	27.0	25.0	27.0
U.S. Mid Cap Equities	4.0	4.0	5.0	5.0	9.0	9.0	10.0	10.0	10.0	10.0	12.0	12.0	14.0	14.0	15.0	15.0	19.0	19.0
U.S. Small Cap Equities	0.0	0.0	2.0	2.0	5.0	2.0	8.0	5.0	8.0	5.0	10.0	7.0	12.0	8.0	14.0	10.0	17.0	13.0
Developed Market Ex-U.S. Equities	2.0	2.0	4.0	4.0	4.0	4.0	5.0	5.0	6.0	6.0	7.0	7.0	9.0	9.0	11.0	11.0	13.0	13.0
Emerging Market Equities	0.0	0.0	0.0	0.0	0.0	0.0	4.0	4.0	5.0	5.0	6.0	6.0	8.0	8.0	12.0	12.0	13.0	13.0
Total Real Assets (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	12.0	12.0	12.0	12.0	14.0	14.0	15.0	15.0	15.0	15.0	10.0	10.0	10.0	10.0	5.0	5.0
Hedge Funds—Relative Value	6.0	6.0	4.0	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	2.0	2.0	2.0	2.0	0.0	0.0
Hedge Funds—Macro	3.0	3.0	5.0	5.0	5.0	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	3.0	3.0
Hedge Funds—Event Driven	0.0	0.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0	4.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Hedge Funds—Equity Hedge	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

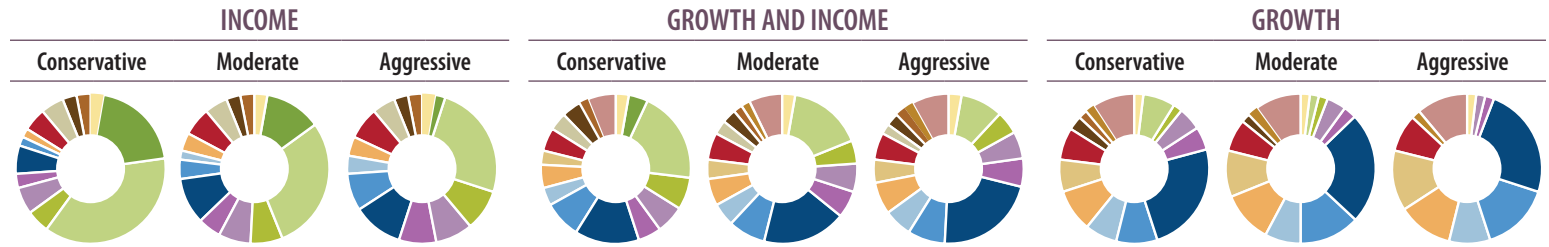
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Strategic and Tactical Asset Allocation

Four asset groups:
fixed income, equities, real assets,
and alternative investments

STRATEGIC



	Conservative		Moderate		Aggressive		Conservative		Moderate		Aggressive		Conservative		Moderate		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Cash Alternatives (%)	3.0	3.0	3.0	4.0	3.0	3.0	3.0	4.0	3.0	3.0	3.0	4.0	2.0	3.0	2.0	3.0	2.0	3.0
Total Fixed Income (%)	71.0	71.0	60.0	59.0	52.0	52.0	42.0	41.0	33.0	34.0	26.0	26.0	19.0	20.0	11.0	13.0	4.0	6.0
U.S. Short Term Taxable	20.0	20.0	12.0	13.0	2.0	3.0	4.0	6.0	0.0	6.0	0.0	4.0	0.0	4.0	0.0	4.0	0.0	4.0
U.S. Intermediate Term Taxable	37.0	40.0	29.0	29.0	25.0	28.0	20.0	21.0	16.0	19.0	9.0	11.0	7.0	9.0	2.0	5.0	0.0	0.0
U.S. Long Term Taxable	5.0	4.0	7.0	7.0	9.0	9.0	7.0	7.0	5.0	3.0	5.0	5.0	2.0	2.0	2.0	0.0	0.0	0.0
High Yield Taxable Fixed Income	6.0	4.0	7.0	5.0	8.0	4.0	6.0	2.0	6.0	0.0	6.0	0.0	5.0	0.0	4.0	0.0	2.0	0.0
Developed Market Ex-U.S. Fixed Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Emerging Market Fixed Income	3.0	3.0	5.0	5.0	8.0	8.0	5.0	5.0	6.0	6.0	6.0	6.0	5.0	5.0	3.0	4.0	2.0	2.0
Total Equities (%)	10.0	10.0	20.0	20.0	27.0	27.0	34.0	34.0	41.0	40.0	48.0	47.0	56.0	54.0	66.0	63.0	73.0	70.0
U.S. Large Cap Equities	6.0	6.0	10.0	12.0	11.0	13.0	14.0	16.0	18.0	20.0	22.0	24.0	24.0	26.0	24.0	26.0	24.0	26.0
U.S. Mid Cap Equities	2.0	2.0	4.0	4.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	9.0	9.0	13.0	12.0	15.0	14.0
U.S. Small Cap Equities	0.0	0.0	2.0	0.0	4.0	2.0	4.0	2.0	5.0	2.0	6.0	3.0	7.0	3.0	8.0	4.0	9.0	5.0
Developed Market Ex-U.S. Equities	2.0	2.0	4.0	4.0	4.0	4.0	5.0	5.0	6.0	6.0	7.0	7.0	9.0	9.0	11.0	11.0	12.0	12.0
Emerging Market Equities	0.0	0.0	0.0	0.0	0.0	0.0	3.0	3.0	4.0	4.0	5.0	5.0	7.0	7.0	10.0	10.0	13.0	13.0
Total Real Assets (%)	5.0	5.0	6.0	6.0	7.0	7.0	5.0	5.0	6.0	6.0	6.0	6.0	7.0	7.0	7.0	7.0	8.0	8.0
Private Real Estate*	5.0	5.0	6.0	6.0	7.0	7.0	5.0	5.0	6.0	6.0	6.0	6.0	7.0	7.0	7.0	7.0	8.0	8.0
Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	11.0	11.0	11.0	11.0	16.0	16.0	17.0	17.0	17.0	17.0	16.0	16.0	14.0	14.0	13.0	13.0
Hedge Funds—Relative Value	5.0	5.0	5.0	5.0	5.0	5.0	4.0	4.0	3.0	3.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Hedge Funds—Macro	3.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	2.0	2.0	0.0	0.0
Hedge Funds—Event Driven	3.0	3.0	3.0	3.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0	0.0	0.0
Hedge Funds—Equity Hedge	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Private Equity	0.0	0.0	0.0	0.0	0.0	0.0	6.0	6.0	7.0	7.0	8.0	8.0	9.0	9.0	10.0	10.0	11.0	11.0

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Current Tactical Guidance

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
Cash alternatives and fixed income				
	High Yield Taxable Fixed Income	Cash Alternatives**	U.S. Short Term Taxable Fixed Income	
	Developed Market Ex.-U.S. Fixed Income	Emerging Market Fixed Income	U.S. Taxable Investment Grade Fixed Income**	
		U.S. Long Term Taxable Fixed Income	U.S. Intermediate Term Taxable Fixed Income**	
Equities				
	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

Private Real Estate	Commodities
Alternative investments*	
	Hedge Funds—Macro
	Hedge Funds—Relative Value
	Hedge Funds—Event Driven
	Hedge Funds—Equity Hedge
	Private Equity

Source: Wells Fargo Investment Institute, November 15, 2019.

*Alternative investments 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. Please see the end of the report for important definitions and disclosures.

**Changed this month.

Past performance is no guarantee of future results.

Fixed Income Sector Strategy: Domestic Investment-Grade Securities

Sector	Guidance			
	Most unfavorable	Neutral	Most favorable	
▲ Duration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
U.S. Government	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Treasury Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Agencies	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inflation-Linked Fixed Income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Preferred Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Securitized	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Residential MBS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commercial MBS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Asset Backed Securities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
U.S. Municipal Bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Taxable Municipal	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
State and Local General Obligation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Essential Service Revenue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pre-Refunded	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: Wells Fargo Investment Institute, November 15, 2019.

U.S. Equity Sector Strategy

Sector	S&P 500 Index weight (%)*	WFII guidance (%)	Guidance		
			Most unfavorable	Neutral	Most favorable
Communication Services	10.4	7.3	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Consumer Discretionary	10.0	12.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Consumer Staples	7.3	6.7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Energy	4.4	4.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financials	13.0	14.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Health Care	13.9	14.6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Industrials	9.4	10.0	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information Technology	22.4	24.5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Materials	2.7	0.0	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Real Estate	3.1	3.0	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Utilities	3.5	3.0	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Total	100.0	100.0			

Sources: Bloomberg, Wells Fargo Investment Institute (WFII). Weightings are as of October 31, 2019. WFII guidance is as of November 15, 2019.

*Sector weightings may not add to 100% due to rounding.

Total Sector Returns (%)

Sector	1 month	YTD	12 month
U.S. Government	0.1	7.7	11.0
Credit	0.6	13.3	14.9
Securitized	0.4	6.0	8.9
U.S. Municipal Bonds	0.2	6.9	9.4

Source: FactSet, October 31, 2019.

Total Returns (%): S&P 500 Index Groups

Sector	1 month	YTD	12 months
S&P 500 Index	2.2	23.2	14.3
Communication Services	3.0	25.4	15.5
Consumer Discretionary	0.3	22.9	15.8
Consumer Staples	-0.1	23.1	14.0
Energy	-2.3	3.6	-11.0
Financials	2.4	22.5	11.7
Health Care	5.1	11.0	8.6
Industrials	1.1	23.9	14.9
Information Technology	3.9	36.5	22.6
Materials	0.0	17.2	13.5
Real Estate	-0.1	29.6	26.7
Utilities	-0.8	24.4	23.7
WFII weighted guidance	2.3	24.2	15.0

Source: FactSet, October 31, 2019.

Forecasts, targets, and estimates are based on certain assumptions and on our views of market and economic conditions which are subject to change.

Asset class risks

Asset allocation and diversification are investment methods used to manage risk 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.

Alternative investments, such as hedge funds, private capital funds, and private real estate funds, carry specific investor qualifications and involve the risk of investment loss, including the loss of the entire amount invested. While investors may potentially benefit from the ability of alternative investments to potentially improve the risk-reward profiles of their portfolios, the investments themselves can carry significant risks. Government regulation and monitoring of these types of investments may be minimal or nonexistent. There may be no secondary market for alternative investment interests and transferability may be limited or even prohibited.

The use of alternative investment strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, are speculative and involve a high degree of risk. These strategies may expose investors to risks such as short selling, leverage risk, counterparty risk, liquidity risk, volatility risk, the use of derivatives and other significant risks. The use of alternative investment strategies may require a manager's skill in assessing corporate events, the anticipation of future movements in securities prices, interest rates, or other economic factors. No assurance can be given that a manager's view of the economy will be correct which may result in lower investment returns or higher return volatility.

Private capital funds use complex trading strategies, including hedging and leveraging through derivatives and short selling. These funds often demand long holding periods to allow for a turnaround and exit strategy. Hedge fund and private equity/private capital 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.

Privately offered real estate funds carry significant risks. They are unlisted making them hard to value and trade. They are generally only available to accredited investors within the meaning of the U.S. securities laws. There can be no assurance a secondary market will exist for these funds and there may be restrictions on transferring interests.

Cash alternatives including bank certificates of deposits, Treasury bills, and ultra-short bond mutual funds have advantages and disadvantages depending on the type of instrument. They typically offer lower rates of return than longer-term equity or fixed-income securities and may not keep pace with inflation over extended periods of time. While government securities are backed by the full faith and credit of the federal government as to payment of principal and interest if held to maturity and are considered free from credit risk, they are subject to interest rate risk.

Investing in commodities is not suitable for all investors. Exposure to the commodities markets may subject an investment to greater share price volatility than an investment in traditional equity or debt securities. Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity. Products that invest in commodities may employ more complex strategies which may expose investors to additional risks.

Inflation-Indexed Bonds, including Treasury Inflation-Protected Securities (TIPS), are subject to interest rate risk, especially when real interest rates rise. This may cause the underlying value of the bond in the portfolio to fluctuate more than other fixed income securities.

Investing in foreign securities presents certain risks that may not be present in domestic securities. For example, investments in foreign, emerging and frontier markets present special risks, including currency fluctuation, the potential for diplomatic and potential instability, regulatory and liquidity risks, foreign taxation and differences in auditing and other financial standards.

Investments in fixed-income securities are subject to market, interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and principal. High yield fixed income securities are considered speculative, involve greater risk of default, and tend to be more volatile than investment grade fixed income securities. 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). 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. Quality varies widely depending on the specific issuer. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. Investments in equity securities are generally more volatile than other types of securities.

Mortgage-related and asset-backed securities are subject to the risks associated with investment in debt securities. In addition, they are subject to prepayment and call risks. Changes in prepayments may significantly affect yield, yielding investments may not be available for the Fund to purchase. These risks may be heightened for longer maturity and duration securities. 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.

Master Limited Partnerships (MLPs) involves certain risks which differ from an investment in the securities of a corporation. MLPs may be sensitive to price changes in oil, natural gas, etc., regulatory risk, and rising interest rates. A change in the current tax law regarding MLPs could result in the MLP being treated as a corporation for federal income tax purposes which would reduce the amount of cash flows distributed by the MLP. Other risks include the volatility associated with the use of leverage; volatility of the commodities markets; market risks; supply and demand; natural and man-made catastrophes; competition; liquidity; market price discount from Net Asset Value and other material risks.

Preferred stocks are subject to issuer-specific and market risks. They are generally subordinated to bonds or other debt instruments in an issuer's capital structure, subjecting them to a greater risk of non-payment than more senior securities.

There are special risks associated with an investment in real estate, including the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

The prices of small and mid-cap company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Index definitions.

An index is unmanaged and not available for direct investment.

Fixed income representative indices.

Cash Alternatives/Treasury Bills. Bloomberg Barclays US Treasury Bills (1-3M) Index is representative of money markets.

U.S. Short Term Fixed Income. Bloomberg Barclays US Aggregate 1-3 Year Bond Index is the one to three year component of the Barclays US Aggregate Index, which represents fixed-income securities that are SEC-registered, taxable, dollar-denominated, and investment-grade.

U.S. Intermediate Term Fixed Income. Bloomberg Barclays US Aggregate 5-7 Year Bond Index is unmanaged and is composed of the Bloomberg Barclays US Government/Credit Index and the Bloomberg Barclays US Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 5-7 years.

U.S. Long Term Fixed Income. Bloomberg Barclays US Aggregate 10+ Year Bond Index is unmanaged and is composed of the Bloomberg Barclays US Government/Credit Index and the Bloomberg Barclays US Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 10 years or more.

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

High Yield Taxable Fixed Income. Bloomberg Barclays US Corporate High-Yield Index covers the universe of fixed rate, non-investment grade debt.

Developed Market Ex-U.S. Fixed Income (Unhedged). J.P. Morgan GBI Global ex-US Index (Unhedged) in USD is an unmanaged index market representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets.

Developed Market Ex-U.S. Fixed Income (Hedged). J.P. Morgan GBI ex U.S. Hedged is an unmanaged index market representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets.

Emerging Market Fixed Income (U.S. dollar). J.P. Morgan Emerging Markets Bond Index (EMBI Global) currently covers more than 60 emerging market countries. Included in the EMBI Global are U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

Equity representative indices.

U.S. Large Cap Equities. S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

U.S. Mid Cap Equities. Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 27% of the total market capitalization of the Russell 1000 companies.

U.S. Small Cap Equities. 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.

Developed Market Ex-U.S. Equities (U.S. dollar)/(Local). MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of 21 developed markets, excluding the U.S. and Canada.

Emerging Market Equities (U.S. dollar)/(Local). MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of 23 emerging markets.

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Real assets representative indices.

Public Real Estate. FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real-estate companies and REITs in developed countries worldwide.

MLPs. Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return basis and on a total-return basis.

Commodities (BCOM). Bloomberg Commodity Index is a broadly diversified index comprised of 22 exchange-traded futures on physical commodities and represents 20 commodities weighted to account for economic significance and market liquidity.

Alternative strategies representative indices.

Global Hedge Funds. HFRI Fund Weighted Composite Index. A global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net-of-all-fees performance in U.S. dollars and have a minimum of \$50 Million under management or a 12-month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

Relative Value. HFRI Relative Value (Total) Index. Strategy is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments

represents an attractive opportunity for the investment manager. RV position may be involved in corporate transactions also, but as opposed to ED exposures, the investment thesis is predicated on realization of a pricing discrepancy between related securities, as opposed to the outcome of the corporate transaction.

Macro. HFRI Macro (Total) Index. Encompass a broad range of strategies predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard-currency, and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches and long- and short-term holding periods. Although some strategies employ RV techniques, Macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments rather than on realization of a valuation discrepancy between securities. In a similar way, while both Macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposed to EH, in which the fundamental characteristics on the company are the most significant are integral to investment thesis.

Event Driven. HFRI Event Driven (Total) Index. Maintains positions in companies currently or prospectively involved in corporate transactions of wide variety including mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated and frequently involve additional derivative securities. Exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company-specific developments. Investment theses are typically predicated on fundamental (as opposed to quantitative) characteristics, with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

Equity Hedge. HFRI Equity Hedge (Total) Index. Equity Hedge: Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. EH managers would typically maintain at least 50% exposure to, and may in some cases be entirely invested in, equities, both long and short.

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