

Executive Summary

Asset Allocation Strategy

September 17, 2019

Prepare portfolios for potential changes ahead

As we approach autumn, investors are focused on this week's Federal Reserve (Fed) meeting, along with concerns about tariffs, trade, and inverting yield curves. We observed significant anticipation over Fed Chair Powell's speech at the Jackson Hole symposium last month, since the Fed remained at a crossroads following its first rate cut in more than a decade. Investors were trying to sense whether Chair Powell was committed to a series of cuts—or whether July's cut was a “mid-cycle adjustment” requiring only a single cut—or perhaps a handful of cuts.

Following Jackson Hole, trade tensions between the U.S. and China escalated. Uncertainty grew over the trade-negotiation status, and markets responded. The bond market continued to rally at a dizzying pace as the 10-year U.S. Treasury price rose and yields declined by more than 50 basis points—the largest rally in a single month since 2015.¹ The 30-year Treasury yield also rallied as it dipped below a 2% yield again and reached all-time lows. Various portions of the yield curve have inverted in recent months, and yield curve trends remain fluid. Some portions of the yield curve remain inverted, while others have returned to positive territory. We believe that the U.S. bond market has been signaling concerns over future economic weakness. The Treasury yield curve inversions tell us that investor caution is warranted in the current economic climate.

Trade tensions and conflicting Fed views at the Jackson Hole symposium have created a more uncertain environment for investors. A resurgence in equity market volatility also has investors concerned about a potential U.S. economic recession. We do not expect a recession in 2019; yet, the risk of one has increased for the latter part of 2020 and early 2021. During this period of trade confusion, we believe that investors should adopt a more conservative approach on global equities. We believe that equity allocations should remain neutral versus strategic targets in all equity classes except small caps. With history as a guide, U.S. large-cap equities still could have room to appreciate.

We expect the recent market uncertainty to increase through year-end. We urge investors to avoid complacency during this period of heightened volatility. We recommend a diversified allocation across asset classes, geographies, and sectors.

Within fixed income, investors should consider raising their average credit quality and match portfolio duration to that of their individually selected benchmarks. We believe that investment-grade credit and corporate bond spreads (over Treasury yields) offer opportunities at current levels. We also see residential mortgage-backed securities as a compelling high-quality fixed income alternative, with attractive yield potential today. Finally, we hold a favorable view on investment-grade municipal bonds, given their historically high quality as a bond class, their compelling yield ratios versus Treasury security yields, and their recently strong investment inflows.

Economic Summary: A second look at second-quarter gross domestic product (GDP) was revised lower to a 2.0% annualized, quarter-over-quarter expansion rate. Better-than-expected household spending was offset by weaker business investment and trade activity during the quarter.

Fixed Income: Most fixed-income classes gained in August and year to date (YTD). A “risk-off” view—combined with trade tensions, equity volatility, and central-bank easing—fueled the strong performance. As investors searched for yield, double-digit YTD returns were delivered by long-term taxable issues (+23.3%), preferred stock (+14.0%), investment-grade and high-yield corporates (+13.9% and 11.0%, respectively), and U.S.-dollar-denominated emerging market (EM) debt (+12.5%). All major fixed-income classes have risen YTD, and all but one (local-currency EM bonds) gained last month.

Equities: August was a choppy and negative month for equities, with all the major U.S. and international equity classes posting losses. Investors were focused on global central-bank easing and wondering how many more Fed rate cuts would occur by year-end and beyond. Trade frictions have garnered many headlines; real progress has remained elusive. Last month, equity markets were driven by trade-negotiation disappointments and slowing global-growth concerns, along with earnings results and forward company guidance. In the U.S., large caps, mid caps, and small caps lost 1.6%, 2.8%, and 4.9%, respectively, in August. Internationally, U.S.-dollar-denominated (USD) EM and developed market (DM) equities registered monthly declines of 4.8% and 2.6%, respectively, during that same time frame. Nevertheless, all the major equity classes except EM (and USD DM small-cap) equities have posted double-digit YTD gains.

Real Assets: The late July risk-off market mood carried through much of August. Defensive assets generally outperformed more cyclical ones. This was true in the Real Assets space as well—with precious metals far outpacing other commodities. Global growth and demand concerns weighed on many other commodities. The continued energy price meltdown was a headwind for master limited partnership (MLP) investor sentiment and performance.

Alternative Investments*: Early estimates from Hedge Fund Research, Inc. (HFR) indicate slight August gains, along with outperformance versus global equity markets. Equity Hedge declined, but the strategies with lower net exposure performed quite well. Less directional Relative Value strategies generated losses in what was a choppy credit-market trading environment. Macro strategies had a very strong month—driven by Discretionary trading in fixed income and precious metals markets. Within Event Driven, the Activist strategy underperformed amid equity market volatility.

¹ One hundred basis points equal 1.00%. *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	2.2
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	2926
S&P 500 earnings per share (\$)	167	162
Russell Midcap® Index	2310 - 2410	2196
Russell Midcap earnings per share (\$)	128	124
Russell 2000 Index	1530 - 1630	1495
Russell 2000 earnings per share (\$)	65	62
MSCI EAFE Index	1875 - 1975	1843
MSCI EAFE earnings per share (\$)	135	132
▼ MSCI Emerging Markets (EM) Index	960 - 1060	984
MSCI EM earnings per share (\$)	84	82
Global fixed income (%)		
	2019 YE targets	Current
▼ 10-year U.S. Treasury yield	1.50 - 2.00	1.50
▼ 30-year U.S. Treasury yield	1.75 - 2.25	1.96
▼ Fed funds rate	1.50 - 1.75	2.25
Global real assets (%)		
	2019 YE targets	Current
▼ West Texas Intermediate crude oil price (\$ per barrel)	50 - 60	55
▼ Brent crude oil price (\$ per barrel)	55 - 65	60
▲ Gold price (\$ per troy ounce)	1,400 - 1,500	1,523
Currencies		
	2019 YE targets	Current
▼ Dollar/euro exchange rate	\$1.07-\$1.15	\$1.10
▼ Yen/dollar exchange rate	¥101-¥111	¥106

Sources: FactSet, Bloomberg, International Monetary Fund, as of August 31, 2019. The 2019 targets are Wells Fargo Investment Institute forecasts, as of September 17, 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. ▲/▼: recent change.

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	2.6	2.8	9.1	10.2	3.1	3.3
High Yield Taxable Fixed Income	0.4	1.0	11.0	6.6	6.2	4.9
DM Ex-U.S. Fixed Income (Unhedged)	2.5	1.8	7.2	7.6	1.2	0.8
EM Fixed Income (U.S. dollar)	0.5	1.7	12.5	13.1	4.1	4.7
Equities						
U.S. Large Cap Equities	-1.6	-0.2	18.3	2.9	12.7	10.1
U.S. Mid Cap Equities	-2.8	-1.5	19.6	0.5	10.1	7.9
U.S. Small Cap Equities	-4.9	-4.4	11.8	-12.9	7.9	6.4
DM Equities Ex-U.S. (U.S. dollar)	-2.6	-3.8	10.1	-2.7	6.4	2.4
EM Equities (U.S. dollar)	-4.8	-5.9	4.2	-4.0	6.2	0.8
Real assets						
Public Real Estate	1.9	2.3	17.8	9.1	5.4	5.9
Master Limited Partnerships	-5.5	-5.7	10.3	-10.2	-2.1	-9.1
Commodities (BCOM)	-2.3	-3.0	1.9	-5.9	-0.9	-8.6
Alternative investments						
Global Hedge Funds	0.1	0.5	7.8	1.1	4.3	2.9

Sources: Bloomberg Barclays, J.P. Morgan, Standard & Poor's, Russell Indices, MSCI Inc., FTSE, Alerian, Bloomberg, Hedge Fund Research, Inc.; as of August 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"/>	<input type="checkbox"/>
Europe	61	<input type="checkbox"/>	<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"/>	<input type="checkbox"/>
▼ Emerging Market Equities		<input type="checkbox"/>	<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"/>	<input checked="" type="checkbox"/>
Europe, Middle East and Africa	12	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Latin America	12	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Source: Wells Fargo Investment Institute; as of September 17, 2019.

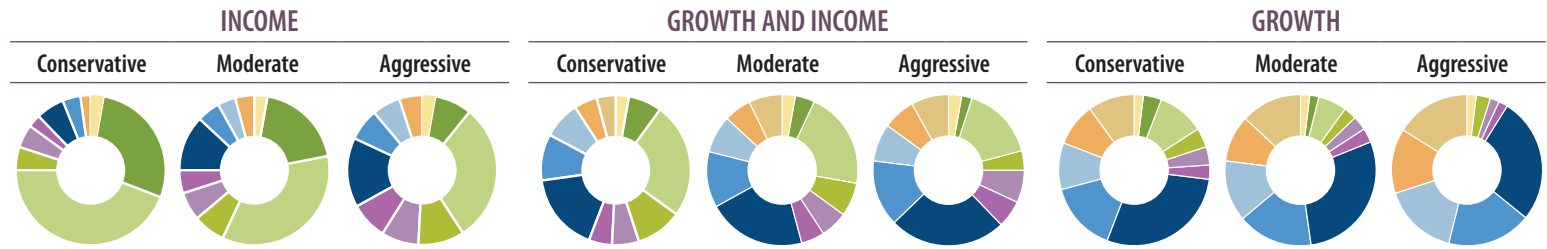
*Benchmarks are MSCI EAFE Index for DM and MSCI Emerging Markets Index for EM.

▼: recent change.

Strategic and Tactical Asset Allocation

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

STRATEGIC



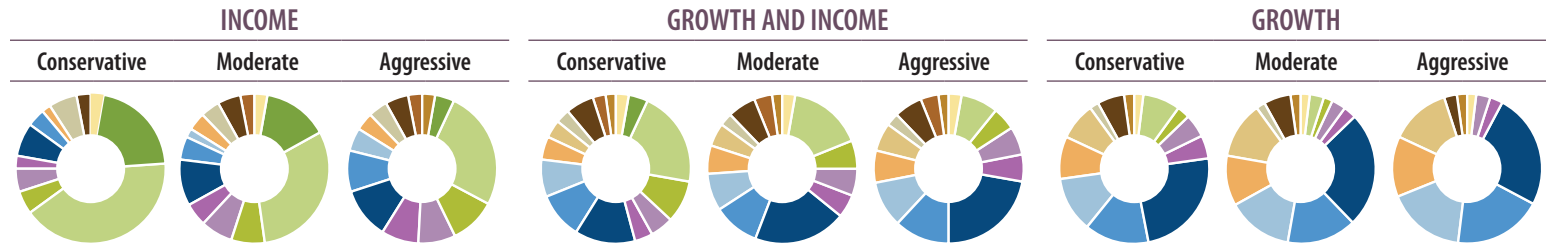
	Conservative		Moderate		Aggressive		Conservative		Moderate		Aggressive		Conservative		Moderate		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Cash Alternatives (%)	3.0	5.0	3.0	6.0	3.0	6.0	3.0	7.0	3.0	6.0	3.0	6.0	2.0	5.0	2.0	5.0	2.0	6.0
Total Fixed Income (%)	85.0	83.0	72.0	69.0	64.0	61.0	53.0	50.0	43.0	41.0	35.0	33.0	25.0	24.0	17.0	16.0	7.0	6.0
U.S. Short Term Taxable	28.0	28.0	19.0	19.0	8.0	9.0	7.0	10.0	4.0	8.0	2.0	7.0	4.0	7.0	2.0	5.0	0.0	0.0
U.S. Intermediate Term Taxable	44.0	44.0	35.0	35.0	30.0	30.0	25.0	25.0	21.0	20.0	16.0	15.0	10.0	10.0	6.0	5.0	0.0	0.0
U.S. Long Term Taxable	5.0	5.0	7.0	8.0	10.0	10.0	10.0	8.0	7.0	5.0	4.0	2.0	4.0	4.0	3.0	3.0	3.0	4.0
High Yield Taxable Fixed Income	5.0	3.0	6.0	2.0	8.0	4.0	6.0	2.0	6.0	3.0	7.0	3.0	4.0	0.0	3.0	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	5.0	5.0	6.0	6.0	3.0	3.0	3.0	3.0	2.0	2.0
Total Equities (%)	12.0	12.0	25.0	25.0	33.0	33.0	44.0	43.0	54.0	53.0	62.0	61.0	73.0	71.0	81.0	79.0	91.0	88.0
U.S. Large Cap Equities	6.0	6.0	12.0	14.0	15.0	17.0	17.0	19.0	21.0	23.0	25.0	27.0	29.0	31.0	29.0	31.0	27.0	29.0
U.S. Mid Cap Equities	4.0	4.0	5.0	5.0	7.0	7.0	10.0	10.0	12.0	12.0	14.0	14.0	15.0	15.0	16.0	16.0	18.0	17.0
U.S. Small Cap Equities	0.0	0.0	4.0	2.0	6.0	4.0	8.0	5.0	8.0	5.0	8.0	5.0	10.0	6.0	13.0	9.0	16.0	12.0
Developed Market Ex-U.S. Equities	2.0	2.0	4.0	4.0	5.0	5.0	5.0	5.0	6.0	6.0	7.0	7.0	9.0	9.0	10.0	10.0	14.0	14.0
Emerging Market Equities	0.0	0.0	0.0	0.0	0.0	0.0	4.0	4.0	7.0	7.0	8.0	8.0	10.0	10.0	13.0	13.0	16.0	16.0
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
Public Real Estate	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

Strategic allocations are updated annually; last update was July 16, 2019. Tactical allocations are updated periodically; last update was August 19, 2019.

Strategic and Tactical Asset Allocation

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

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	5.0	3.0	6.0	3.0	6.0	3.0	7.0	3.0	7.0	3.0	7.0	2.0	5.0	2.0	6.0	2.0	5.0
Total Fixed Income (%)	75.0	73.0	64.0	61.0	56.0	54.0	43.0	40.0	33.0	30.0	25.0	22.0	21.0	20.0	11.0	9.0	6.0	5.0
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	41.0	31.0	31.0	26.0	26.0	21.0	21.0	16.0	16.0	8.0	8.0	8.0	7.0	3.0	2.0	0.0	0.0
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
Public Real Estate	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

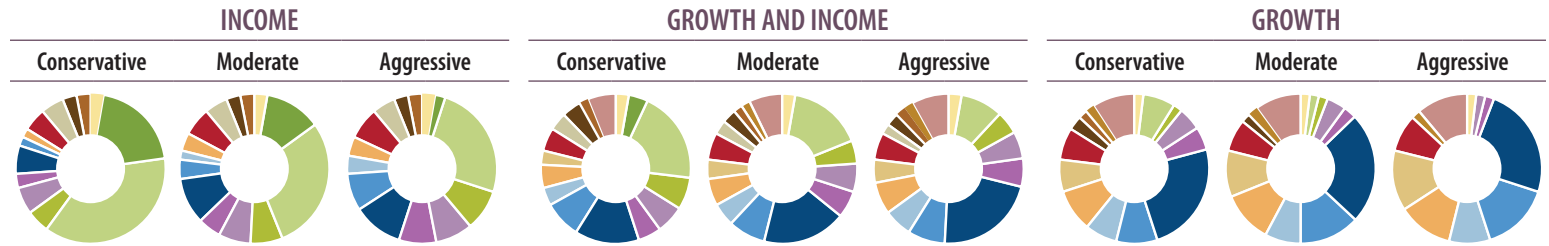
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and alternative investments

STRATEGIC



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	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Cash Alternatives (%)	3.0	6.0	3.0	4.0	3.0	6.0	3.0	7.0	3.0	6.0	3.0	7.0	2.0	6.0	2.0	6.0	2.0	3.0
Total Fixed Income (%)	71.0	68.0	60.0	59.0	52.0	49.0	42.0	38.0	33.0	31.0	26.0	23.0	19.0	17.0	11.0	10.0	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	37.0	29.0	29.0	25.0	25.0	20.0	18.0	16.0	16.0	9.0	8.0	7.0	6.0	2.0	2.0	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
Public Real Estate	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
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

Strategic allocations are updated annually; last update was July 16, 2019. Tactical allocations are updated periodically; last update was August 19, 2019. Hedge fund allocations are based on private hedge fund capital market assumptions.

*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.

Current Tactical Guidance

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
Cash alternatives and fixed income				
	High Yield Taxable Fixed Income	Emerging Market Fixed Income	Cash Alternatives	
	Developed Market Ex.-U.S. Fixed Income	U.S. Taxable Investment Grade Fixed Income	U.S. Short Term Taxable Fixed Income	
		U.S. Intermediate Term Taxable Fixed Income		
		U.S. Long 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—Event Driven
	Hedge Funds—Relative Value
	Hedge Funds—Equity Hedge
	Private Equity

Source: Wells Fargo Investment Institute, September 17, 2019.

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**Changed in August.

Past performance is no guarantee of future results.

Fixed Income Sector Strategy: Domestic Investment-Grade Securities

Sector	Guidance			
	Most unfavorable	Neutral	Most favorable	
Duration	□ □	■	□ □	
U.S. Government	□ ■	□	□ □	
Treasury Securities	□ □	■	□ □	
Agencies	□ ■	□	□ □	
Inflation-Linked Fixed Income	□ □	■	□ □	
▲ Credit	□ □	□	■ □	
▲ Corporate Securities	□ □	□	■ □	
Preferred Securities	□ □	□	■ □	
Securitized	□ □	□	■ □	
Residential MBS	□ □	□	■ □	
Commercial MBS	□ □	■	□ □	
Asset Backed Securities	□ ■	□	□ □	
U.S. Municipal Bonds	□ □	□	■ □	
Taxable Municipal	□ □	□	■ □	
State and Local General Obligation	□ □	■	□ □	
Essential Service Revenue	□ □	□	■ □	
Pre-Refunded	□ □	■	□ □	

Source: Wells Fargo Investment Institute, September 17, 2019. ▲: recent change

U.S. Equity Sector Strategy

Sector	S&P 500 Index weight (%)*	WFII guidance (%)	Guidance			
			Most unfavorable	Neutral	Most favorable	
Communication Services	10.5	7.3	□ ■	□	□ □	
Consumer Discretionary	10.2	12.2	□ □	□	■ □	
Consumer Staples	7.6	6.7	□ □	■	□ □	
▼ Energy	4.4	4.2	□ □	■	□ □	
Financials	12.8	14.5	□ □	□	■ □	
Health Care	13.9	14.6	□ □	■	□ □	
▼ Industrials	9.2	10.0	□ □	■	□ □	
Information Technology	22.1	24.5	□ □	□	□ ■	
Materials	2.7	0.0	□ ■	□	□ □	
▲ Real Estate	3.3	3.0	□ □	■	□ □	
▲ Utilities	3.5	3.0	□ □	■	□ □	
Total	100.0	100.0				

Sources: Bloomberg, Wells Fargo Investment Institute (WFII). Weightings are as of August 31, 2019. WFII guidance is as of September 17, 2019.

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

▲/▼: recent change.

Total Sector Returns (%)

Sector	1 month	YTD	12 month
U.S. Government	3.4	8.6	10.3
Credit	3.1	13.4	13.0
Securitized	0.9	5.5	7.1
U.S. Municipal Bonds	1.6	7.6	8.7

Source: FactSet, August 31, 2019.

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

Sector	1 month	YTD	12 months
S&P 500 Index	-1.6	18.3	2.9
Communication Services	-1.5	21.2	9.7
Consumer Discretionary	-1.3	21.4	2.5
Consumer Staples	1.8	21.2	16.1
Energy	-8.1	2.1	-20.1
Financials	-4.8	14.3	-2.9
Health Care	-0.5	5.8	-0.6
Industrials	-2.6	19.0	0.6
Information Technology	-1.5	29.4	6.6
Materials	-2.8	13.5	-2.5
Real Estate	4.9	28.5	20.3
Utilities	5.2	20.3	21.2
WFII weighted guidance	-1.6	19.2	3.7

Source: FactSet, August 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.

MSCI United Kingdom Index is designed to measure the performance of the large and mid-cap segments of the U.K. market. With 103 constituents, the index covers about 85% of the free float-adjusted market capitalization in the U.K.

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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 a 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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