January 3, 2018

Revising 2018 Targets and Adjusting Tactical Positions

Investment Strategy Team

Key takeaways

- *In November, we adjusted our 2018 year-end targets for tax reform, but the final version of the Tax Cuts and Jobs Act exceeded our November expectations for economic and corporate earnings stimulus.*
- *We now further adjust our targets and recommend that investors reallocate their portfolios to reflect our upwardly revised U.S. economic and equity outlook.*

What it may mean for investors

- *We recommend that investors reallocate from U.S. Intermediate-Term Fixed Income into U.S. Small-Cap Equities, so that both allocations match their long-term target allocations (i.e., evenweight both allocations).*

We have adjusted our 2018 economic and equity targets to reflect the recent passage of the Tax Cuts and Jobs Act and accelerating economic growth. We also recommend that investors reallocate from U.S. Intermediate-Term Fixed Income into U.S. Small-Cap Equities, so that both allocations match their long-term target allocations (evenweight).

Moving to a More Favorable Economic Outlook

Our U.S. economic and fundamental outlook has improved markedly since tax reform deliberations began in September. In November, we raised our economic and equity targets for 2018 to reflect modest benefits from tax reform, but the bill that became law on December 22 offers even more potential economic and corporate earnings growth than we had estimated in November. Specifically, the tax code changes front-load the stimulus, doubling the scheduled 2018 tax cuts over the version that the House passed in mid-November. We are raising our 2018 U.S. economic growth forecast to 2.9%, up from 2.6% in November and 2.4% in our initial target from September. This change also raises our economic growth estimate for the advanced economies from 2.2% to 2.3%.

We are not making any other economic or currency target changes at this time. We raised our U.S. inflation forecast to 2.4% in November and anticipate balanced risks around this forecast as 2018 begins. Stronger spending should reinforce the gradual uptrend in inflation, but we believe the long-term downtrend in pricing pressures will counterbalance any new upward pressure from new spending. Likewise, crosscurrents dominate expectations for the U.S. dollar's value this year. A stronger U.S. economy is positive for the dollar, but a wider federal budget deficit is a negative.[1]

Table 1. 2018 Economic Forecast and Market Target Changes

	New target	Previous target	Change (percentage points)
Domestic GDP Growth	2.9%	2.6%	0.3
Domestic Inflation	2.4%	2.4%	Unchanged
Developed-Market GDP Growth	2.3%	2.2%	0.1
Developed-Market Inflation	2.0%	2.0%	Unchanged

Source: Wells Fargo Investment Institute, January 3, 2018.

We Anticipate a More Positive Equity Outlook

We also are updating our equity outlook to incorporate both expectations for faster economic growth and tax changes. The U.S. corporate tax rate is falling steeply, from 35% to 21%, this year. This also should increase earnings. Another important positive for earnings is the provision that allows firms to fully expense new equipment, which is intended to encourage companies to bring forward equipment spending. Previously, we had assumed only a 23% tax rate and 50% expensing. These two factors should have a larger and more positive impact on corporate earnings than we had anticipated in November.

Table 2. Revised 2018 Year-End Equity Target Ranges

	New target	Previous target	Percentage change (midpoint to midpoint)
S&P 500 Index	2800-2900	2650-2750	5.6%
S&P 500 operating earnings per share	$152	$145	4.8%
Russell Midcap Index	2200-2300	2050-2150	7.1%
Russell 2000 Index	1650-1750	1500-1600	9.7%
MSCI EAFE Index	2050-2150	2050-2150	Unchanged
MSCI Emerging Markets (EM) Index	1160-1240	1160-1240	Unchanged

Source: Wells Fargo Investment Institute, January 3, 2018.

[1] For more details, please see our report, titled, "A New Look from the Brink of Historic Tax Reform", December 18, 2017.

For the large-cap S&P 500 Index, we expect the combined benefits of tax reform to modestly impact earnings per share (EPS) before interest and taxes, but materially increase after-tax margins and income. We are projecting 5.8% revenue expansion for 2018 over our 2017 expectation. Our initial base 2018 earnings estimate (without tax-plan assumptions) was $138, and we lifted that estimate to $145 for modest tax-cut assumptions in November. The complete tax plan is even more stimulative for economic and earnings growth than we had anticipated in November. Consequently, we are moving our S&P 500 Index earnings estimate to $152 for 2018. This represents a 10.1% increase over our initial 2018 estimate from September, and a 17.8% increase over our $129 EPS estimate for 2017.

Except for a small adjustment for rounding, we are essentially maintaining our November price-to-earnings (P/E) multiple forecast for the S&P 500 Index in 2018 (from 18.6x in November to 18.9x), still above the long-term median of 16.7x. We revised this estimate in November to align more closely with our 10-year Treasury yield target, and we see no reason to fundamentally change this view today. Our S&P 500 Index target range comes to 2800-2900 for 2018.

The earnings in the mid-cap space (Russell Midcap Index) are impacted similarly to those of large caps due to mid-cap companies' size and effective tax rate characteristics. Relative to 2017, we are anticipating a 5.5% increase in revenue for 2018. However, we expect that the tax-rate cut and expensing provision will bring 2018 mid-cap earnings to $110, which represents an increase of roughly 11% over our September earnings estimate that did not incorporate tax reform.

Even though there are similarities in the earnings impact for large caps and mid caps, there are differences in the valuation we assign, for reasons relating to the maturing economic expansion. First, as the cycle progresses, investors may seek less risk and favor larger companies over mid-sized ones. Additionally, larger U.S. companies tend to utilize more share repurchase programs, particularly as the new tax code offers more incentive to repatriate overseas earnings. Thus, it does not seem appropriate to assign a valuation above historic norms for mid caps, which is why we forecast the median of 20.5x.

We expect that the tax plan will benefit the small-capitalization Russell 2000 Index by comparatively more than the larger-cap indices. The smaller, mostly domestic companies in this index tend to pay higher tax rates—and have less to lose from limits on interest deductibility—than the larger, multinational companies do. In addition, smaller companies generally have lower profit margins than larger firms do, so tax cuts can translate into higher percentage year-to-year post-tax earnings increases than would likely be experienced by large- and mid-cap companies.

In other words, we had expected tax reform to benefit small-cap companies by more than larger firms, but the final adjustments to the bill widen that potential performance gap somewhat further than was reflected in our November targets. Given the magnitude of the effects, one could infer that tax reform was tailored to these smaller companies, which generate the great majority of new U.S. jobs. We are expecting a 6.9% increase in revenues and post-tax adjusted operating earnings per share of $53. This new estimate represents a 36% increase from our initial base case unadjusted estimate of $39.

Currently, the trailing P/E valuation of the Russell 2000 Index is greater than 50x, well above its 22-year median of 34.5x. We believe that the current multiple, at more than 15 P/E points higher than the long-term median, expanded as expectations rose (during the last half of 2017) for a tax plan to be inked. As those expectations become reality, and the earnings actually roll in, the P/E multiple should move back toward the historic norms. It is also important to remember that tax reform is likely to be a temporary earnings boost—and, in this case—has been front-loaded for 2018. By year-end, we believe that investors will be looking more closely for organic economic growth, as tax cuts become less important for incremental growth. For these reasons, we expect that the Russell 2000 valuation will contract during 2018 to approximately 32.1x, that is, from the unsustainably high current level to a valuation more in line with history. If this multiple contraction happens at a slower pace than we expect, which could happen if investors choose to focus solely on the stronger earnings growth, it could be that our forecast for small caps ends up being conservative.

Other risks to our domestic equity outlook exist both to the upside and to the downside. If tax reform encourages additional capital spending, employment, and growth, and if inflation remains benign, then the risks are to the upside. In this case, tax cuts might postpone the revenue deceleration that is typical late in an economic expansion. In particular for small companies, we are not projecting any operating margin expansion, and have applied a P/E ratio that is a touch below what history and the relative relationship to the S&P 500 Index would suggest.

If, however, tax reform sparks more household spending without a corresponding increase in productive capacity, then higher inflation could result and, with it, a faster pace of interest-rate hikes. This scenario could be less positive for equity markets. We will be monitoring forward-looking indicators of economic and industrial activity, including all 10 components of The Conference Board's Leading Economic Index (which includes indicators on business capital goods orders), and a variety of other measures that track the economy's efficiency and pressure on inflation.

We have made no additional changes to our targets for international equity classes. In November, we raised our international earnings expectations and index price targets, to better align them with the continuing growth that we expect abroad during 2018. We do not anticipate that domestic tax cuts will materially impact the growth of companies within the MSCI EAFE or MSCI Emerging Markets indices.

As a result, we remain optimistic with respect to international growth, but the gains from domestic tax reform is likely to offer outsized tailwinds for U.S. earnings. While tax reform appears partially priced into markets, we foresee potential for the U.S. equity markets to generally outperform international markets, until investors believe the solid economy and tax revisions are fully priced into domestic stocks.

A Less Favorable View of U.S. Intermediate-Term Fixed Income

In 2017, the yield curve flattened, which reduced the yield pickup that investors previously enjoyed when moving out on the curve. As a result, we no longer see relative value in overweighting the intermediate fixed-income class. Yield curve flattening last year resulted primarily from rising short-term rates, with longer-term yields little changed (to lower). Our outlook for slightly increasing inflation and improving growth, along with a strengthening labor market, supports slightly higher rates across the yield curve—further reducing the attractiveness of the intermediate fixed-income class.

Other factors also favor higher interest rates. For example, the tax reform law will increase the need for U.S. Treasury issuance over the coming years. Additionally, the Federal Reserve's (Fed) demand for Treasury securities should decrease over time as the Fed reduces its balance sheet. While we expect stronger demand from individuals and institutions, it remains to be seen if this will be enough to counter the stronger prospective supply of Treasury securities. Finally, we expect other developed-market interest rates to rise in 2018 as the European Central Bank begins tapering its quantitative easing. We believe that this rise in global developed-market interest rates will put pressure on the U.S. 10-year Treasury yield to rise modestly as well.

Tactical Shifts Reflect Tax Cuts' Potential Lift to U.S. Equity Markets

We are moving U.S. Small Cap Equities back to evenweight because these companies should see material bottom-line growth for the first time in years. We did not go beyond an evenweight, because small caps already have rallied sharply on the expectations of pro-growth policies like tax reform. Also, while it is not our base case, should tax reform spark sharply higher inflation and interest rates, or if economic or political disruptions undercut the earnings outlook, small-cap valuations could be comparatively more negatively impacted.

Despite having seen international markets at the top of our global equity rankings for much of the year, we do not recommend any tactical adjustments in those markets at this time. We continue to recommend that investors maintain international equity exposures at evenweight (i.e., toward their long-term target allocations). However, in our opinion, tax reform compels the opportunity to also take small-cap allocations toward evenweight, from the previous underweight.

What Should Investors Do Now?

We believe the new tax code potentially will help to support the current U.S. economic expansion in the near term, and may have the potential to extend the length of the economic recovery. This prospect leads to our more positive domestic equity outlook and our expectation for rising interest rates. We believe that our decision to raise the weighting for U.S. Small Cap Equities to evenweight (from an underweight position) is a truly tactical (6-18 months) opportunity. Yet, our expected outlook for the intermediate part of the yield curve no longer justifies an overweight recommendation for U.S. Intermediate-Term Fixed Income, and we have reduced this fixed-income class to evenweight.

We recommend that investors rebalance their portfolios to reflect these changes, while remaining broadly and globally diversified at target exposure levels.

A variety of investment vehicles exist to implement these recommendations. Please contact your investment advisor for details.

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

Updated for revised capital market assumptions and tactical tilt as of January 3, 2018

		CONSERVATIVE			MODERATE			AGGRESSIVE		
		Strategic	Tactical	Difference	Strategic	Tactical	Difference	Strategic	Tactical	Difference
INCOME	**CASH ALTERNATIVES**	**3.0%**	**3.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**
	TOTAL GLOBAL FIXED INCOME	**75.0%**	**71.0%**	**-4.0%**	**60.0%**	**54.0%**	**-6.0%**	**51.0%**	**44.0%**	**-7.0%**
	U.S. Taxable Investment Grade Fixed Income	**58.0%**	**60.0%**	**2.0%**	**42.0%**	**42.0%**	**0.0%**	**30.0%**	**30.0%**	**0.0%**
	Short Term Taxable	20.0%	20.0%	0.0%	12.0%	12.0%	0.0%	2.0%	2.0%	0.0%
	Intermediate Taxable	33.0%	35.0%	2.0%	23.0%	23.0%	0.0%	19.0%	19.0%	0.0%
	Long Term Taxable	5.0%	5.0%	0.0%	7.0%	7.0%	0.0%	9.0%	9.0%	0.0%
	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%	3.0%	0.0%	5.0%	5.0%	0.0%	8.0%	8.0%	0.0%
	TOTAL GLOBAL EQUITIES	**6.0%**	**6.0%**	**0.0%**	**18.0%**	**18.0%**	**0.0%**	**25.0%**	**25.0%**	**0.0%**
	U.S. Large Cap Equities	2.0%	2.0%	0.0%	10.0%	10.0%	0.0%	11.0%	11.0%	0.0%
	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%	0.0%	0.0%	0.0%	4.0%	4.0%	0.0%
	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%**	**6.0%**	**8.0%**	**2.0%**	**8.0%**	**10.0%**	**2.0%**
	Public Real Estate	2.0%	2.0%	0.0%	2.0%	4.0%	2.0%	3.0%	5.0%	2.0%
	Private Real Estate	3.0%	3.0%	0.0%	4.0%	4.0%	0.0%	5.0%	5.0%	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%**	**15.0%**	**4.0%**	**13.0%**	**17.0%**	**4.0%**	**13.0%**	**18.0%**	**5.0%**
	HF - Relative Value	5.0%	9.0%	4.0%	5.0%	9.0%	4.0%	5.0%	10.0%	5.0%
	HF - Macro	3.0%	3.0%	0.0%	5.0%	5.0%	0.0%	5.0%	5.0%	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%**	**4.0%**	**1.0%**	**3.0%**	**3.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**
	TOTAL GLOBAL FIXED INCOME	**39.0%**	**32.0%**	**-7.0%**	**29.0%**	**21.5%**	**-7.5%**	**21.0%**	**13.0%**	**-8.0%**
	U.S. Taxable Investment Grade Fixed Income	**25.0%**	**25.0%**	**0.0%**	**15.0%**	**15.5%**	**0.5%**	**7.0%**	**7.0%**	**0.0%**
	Short Term Taxable	4.0%	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Intermediate Taxable	14.0%	14.0%	0.0%	10.0%	10.5%	0.5%	2.0%	2.0%	0.0%
	Long Term Taxable	7.0%	7.0%	0.0%	5.0%	5.0%	0.0%	5.0%	5.0%	0.0%
	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%	5.0%	0.0%	6.0%	6.0%	0.0%	6.0%	6.0%	0.0%
	TOTAL GLOBAL EQUITIES	**32.0%**	**32.0%**	**0.0%**	**40.0%**	**40.0%**	**0.0%**	**48.0%**	**47.5%**	**-0.5%**
	U.S. Large Cap Equities	14.0%	14.0%	0.0%	18.0%	18.0%	0.0%	22.0%	22.0%	0.0%
	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%	4.0%	0.0%	5.0%	5.0%	0.0%	6.0%	5.5%	-0.5%
	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%	3.0%	0.0%	4.0%	4.0%	0.0%	5.0%	5.0%	0.0%
	TOTAL GLOBAL REAL ASSETS	**10.0%**	**11.0%**	**1.0%**	**11.0%**	**13.0%**	**2.0%**	**11.0%**	**14.0%**	**3.0%**
	Public Real Estate	3.0%	6.0%	3.0%	3.0%	7.0%	4.0%	3.0%	8.0%	5.0%
	Private Real Estate	5.0%	5.0%	0.0%	6.0%	6.0%	0.0%	6.0%	6.0%	0.0%
	Commodities	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%
	TOTAL ALTERNATIVE INVESTMENTS	**16.0%**	**21.0%**	**5.0%**	**17.0%**	**22.5%**	**5.5%**	**17.0%**	**22.5%**	**5.5%**
	HF - Relative Value	4.0%	6.5%	2.5%	3.0%	5.5%	2.5%	2.0%	4.5%	2.5%
	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%	2.5%	2.5%	2.0%	5.0%	3.0%	2.0%	5.0%	3.0%
	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%**	**2.0%**	**0.0%**	**2.0%**	**2.0%**	**0.0%**	**2.0%**	**2.0%**	**0.0%**
	TOTAL GLOBAL FIXED INCOME	**14.0%**	**9.0%**	**-5.0%**	**9.0%**	**5.0%**	**-4.0%**	**4.0%**	**2.0%**	**-2.0%**
	U.S. Taxable Investment Grade Fixed Income	**4.0%**	**4.0%**	**0.0%**	**2.0%**	**2.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
	Short Term Taxable	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Intermediate Taxable	2.0%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Long Term Taxable	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%	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%	5.0%	0.0%	3.0%	3.0%	0.0%	2.0%	2.0%	0.0%
	TOTAL GLOBAL EQUITIES	**56.0%**	**56.0%**	**0.0%**	**63.0%**	**63.0%**	**0.0%**	**70.0%**	**70.0%**	**0.0%**
	U.S. Large Cap Equities	24.0%	24.0%	0.0%	24.0%	24.0%	0.0%	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%	7.0%	0.0%	8.0%	8.0%	0.0%	9.0%	9.0%	0.0%
	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%	7.0%	0.0%	10.0%	10.0%	0.0%	13.0%	13.0%	0.0%
	TOTAL GLOBAL REAL ASSETS	**12.0%**	**14.0%**	**2.0%**	**12.0%**	**13.0%**	**1.0%**	**11.0%**	**12.0%**	**1.0%**
	Public Real Estate	3.0%	7.0%	4.0%	3.0%	6.0%	3.0%	3.0%	4.0%	1.0%
	Private Real Estate	7.0%	7.0%	0.0%	7.0%	7.0%	0.0%	8.0%	8.0%	0.0%
	Commodities	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%	0.0%	0.0%	0.0%
	TOTAL ALTERNATIVE INVESTMENTS	**16.0%**	**19.0%**	**3.0%**	**14.0%**	**17.0%**	**3.0%**	**13.0%**	**14.0%**	**1.0%**
	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%	5.0%	3.0%	2.0%	5.0%	3.0%	2.0%	3.0%	1.0%
	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, January 3, 2018.

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

Updated for revised capital market assumptions and tactical tilt as of January 3, 2018

		CONSERVATIVE			MODERATE			AGGRESSIVE		
		Strategic	Tactical	Difference	Strategic	Tactical	Difference	Strategic	Tactical	Difference
INCOME	**CASH ALTERNATIVES**	**3.0%**	**3.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**
	TOTAL GLOBAL FIXED INCOME	**77.0%**	**74.0%**	**-3.0%**	**64.0%**	**59.0%**	**-5.0%**	**56.0%**	**51.0%**	**-5.0%**
	U.S. Taxable Investment Grade Fixed Income	**61.0%**	**64.0%**	**3.0%**	**46.0%**	**47.0%**	**1.0%**	**35.0%**	**35.0%**	**0.0%**
	Short Term Taxable	21.0%	21.0%	0.0%	14.0%	14.0%	0.0%	4.0%	4.0%	0.0%
	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%	5.0%	0.0%	7.0%	7.0%	0.0%	10.0%	10.0%	0.0%
	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%	3.0%	0.0%	5.0%	5.0%	0.0%	8.0%	8.0%	0.0%
	TOTAL GLOBAL EQUITIES	**6.0%**	**6.0%**	**0.0%**	**16.0%**	**16.0%**	**0.0%**	**24.0%**	**24.0%**	**0.0%**
	U.S. Large Cap Equities	2.0%	2.0%	0.0%	10.0%	10.0%	0.0%	11.0%	11.0%	0.0%
	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%	3.0%	0.0%
	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%**	**2.0%**	**0.0%**	**5.0%**	**7.0%**	**2.0%**	**5.0%**	**7.0%**	**2.0%**
	Public Real Estate	2.0%	2.0%	0.0%	5.0%	7.0%	2.0%	5.0%	7.0%	2.0%
	Commodities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	TOTAL ALTERNATIVE INVESTMENTS	**12.0%**	**15.0%**	**3.0%**	**12.0%**	**15.0%**	**3.0%**	**12.0%**	**15.0%**	**3.0%**
	HF - Relative Value	6.0%	9.0%	3.0%	4.0%	7.0%	3.0%	4.0%	7.0%	3.0%
	HF - Macro	3.0%	3.0%	0.0%	5.0%	5.0%	0.0%	5.0%	5.0%	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%
GROWTH AND INCOME	**CASH ALTERNATIVES**	**3.0%**	**4.0%**	**1.0%**	**3.0%**	**3.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**
	TOTAL GLOBAL FIXED INCOME	**41.0%**	**36.0%**	**-5.0%**	**31.0%**	**25.5%**	**-5.5%**	**23.0%**	**17.0%**	**-6.0%**
	U.S. Taxable Investment Grade Fixed Income	**29.0%**	**29.0%**	**0.0%**	**17.0%**	**17.5%**	**0.5%**	**9.0%**	**9.0%**	**0.0%**
	Short Term Taxable	4.0%	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Intermediate Taxable	16.0%	16.0%	0.0%	11.0%	11.5%	0.5%	4.0%	4.0%	0.0%
	Long Term Taxable	9.0%	9.0%	0.0%	6.0%	6.0%	0.0%	5.0%	5.0%	0.0%
	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%	4.0%	0.0%	5.0%	5.0%	0.0%	6.0%	6.0%	0.0%
	TOTAL GLOBAL EQUITIES	**35.0%**	**35.0%**	**0.0%**	**44.0%**	**44.0%**	**0.0%**	**52.0%**	**51.5%**	**-0.5%**
	U.S. Large Cap Equities	13.0%	13.0%	0.0%	20.0%	20.0%	0.0%	22.0%	22.0%	0.0%
	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%	6.0%	0.0%	6.0%	6.0%	0.0%	8.0%	7.5%	-0.5%
	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%	4.0%	0.0%	5.0%	5.0%	0.0%	6.0%	6.0%	0.0%
	TOTAL GLOBAL REAL ASSETS	**7.0%**	**8.0%**	**1.0%**	**7.0%**	**9.0%**	**2.0%**	**7.0%**	**10.0%**	**3.0%**
	Public Real Estate	5.0%	8.0%	3.0%	5.0%	9.0%	4.0%	5.0%	10.0%	5.0%
	Commodities	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%
	TOTAL ALTERNATIVE INVESTMENTS	**14.0%**	**17.0%**	**3.0%**	**15.0%**	**18.5%**	**3.5%**	**15.0%**	**18.5%**	**3.5%**
	HF - Relative Value	3.0%	3.5%	0.5%	3.0%	3.5%	0.5%	3.0%	3.5%	0.5%
	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%	4.5%	2.5%	2.0%	5.0%	3.0%	2.0%	5.0%	3.0%
GROWTH	**CASH ALTERNATIVES**	**2.0%**	**2.0%**	**0.0%**	**2.0%**	**2.0%**	**0.0%**	**2.0%**	**2.0%**	**0.0%**
	TOTAL GLOBAL FIXED INCOME	**17.0%**	**12.0%**	**-5.0%**	**8.0%**	**5.0%**	**-3.0%**	**6.0%**	**3.0%**	**-3.0%**
	U.S. Taxable Investment Grade Fixed Income	**7.0%**	**7.0%**	**0.0%**	**2.0%**	**2.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
	Short Term Taxable	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	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%	3.0%	0.0%	2.0%	2.0%	0.0%	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%	5.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%
	TOTAL GLOBAL EQUITIES	**62.0%**	**62.0%**	**0.0%**	**71.0%**	**71.0%**	**0.0%**	**82.0%**	**82.0%**	**0.0%**
	U.S. Large Cap Equities	24.0%	24.0%	0.0%	25.0%	25.0%	0.0%	25.0%	25.0%	0.0%
	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%	10.0%	0.0%	12.0%	12.0%	0.0%	15.0%	15.0%	0.0%
	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%	8.0%	0.0%	10.0%	10.0%	0.0%	13.0%	13.0%	0.0%
	TOTAL GLOBAL REAL ASSETS	**7.0%**	**9.0%**	**2.0%**	**7.0%**	**7.0%**	**0.0%**	**5.0%**	**7.0%**	**2.0%**
	Public Real Estate	5.0%	9.0%	4.0%	5.0%	7.0%	2.0%	5.0%	7.0%	2.0%
	Commodities	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%	0.0%	0.0%	0.0%
	TOTAL ALTERNATIVE INVESTMENTS	**12.0%**	**15.0%**	**3.0%**	**12.0%**	**15.0%**	**3.0%**	**5.0%**	**6.0%**	**1.0%**
	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%	5.0%	3.0%	2.0%	5.0%	3.0%	2.0%	3.0%	1.0%

Source: Wells Fargo Investment Institute, January 3, 2018.

Three Asset Groups: Fixed Income, Equities, Real Assets

Updated for revised capital market assumptions and tactical tilt as of January 3, 2018

		CONSERVATIVE			MODERATE			AGGRESSIVE		
		Strategic	Tactical	Difference	Strategic	Tactical	Difference	Strategic	Tactical	Difference
INCOME	**CASH ALTERNATIVES**	**3.0%**	**3.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**
	TOTAL GLOBAL FIXED INCOME	**87.0%**	**84.0%**	**-3.0%**	**72.0%**	**67.0%**	**-5.0%**	**64.0%**	**59.0%**	**-5.0%**
	U.S. Taxable Investment Grade Fixed Income	**73.0%**	**75.0%**	**2.0%**	**56.0%**	**56.0%**	**0.0%**	**43.0%**	**43.0%**	**0.0%**
	Short Term Taxable	28.0%	28.0%	0.0%	19.0%	19.0%	0.0%	8.0%	8.0%	0.0%
	Intermediate Taxable	40.0%	42.0%	2.0%	30.0%	30.0%	0.0%	25.0%	25.0%	0.0%
	Long Term Taxable	5.0%	5.0%	0.0%	7.0%	7.0%	0.0%	10.0%	10.0%	0.0%
	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%	3.0%	0.0%	5.0%	5.0%	0.0%	8.0%	8.0%	0.0%
	TOTAL GLOBAL EQUITIES	**6.0%**	**9.0%**	**3.0%**	**20.0%**	**23.0%**	**3.0%**	**28.0%**	**31.0%**	**3.0%**
	U.S. Large Cap Equities	2.0%	5.0%	3.0%	12.0%	15.0%	3.0%	15.0%	18.0%	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%	2.0%	0.0%	4.0%	4.0%	0.0%
	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%**	**4.0%**	**0.0%**	**5.0%**	**7.0%**	**2.0%**	**5.0%**	**7.0%**	**2.0%**
	Public Real Estate	4.0%	4.0%	0.0%	5.0%	7.0%	2.0%	5.0%	7.0%	2.0%
	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%**	**4.0%**	**1.0%**	**3.0%**	**3.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**
	TOTAL GLOBAL FIXED INCOME	**51.0%**	**46.0%**	**-5.0%**	**41.0%**	**35.0%**	**-6.0%**	**33.0%**	**26.0%**	**-7.0%**
	U.S. Taxable Investment Grade Fixed Income	**37.0%**	**37.0%**	**0.0%**	**27.0%**	**27.0%**	**0.0%**	**17.0%**	**17.0%**	**0.0%**
	Short Term Taxable	7.0%	7.0%	0.0%	4.0%	4.0%	0.0%	2.0%	2.0%	0.0%
	Intermediate Taxable	20.0%	20.0%	0.0%	16.0%	16.0%	0.0%	11.0%	11.0%	0.0%
	Long Term Taxable	10.0%	10.0%	0.0%	7.0%	7.0%	0.0%	4.0%	4.0%	0.0%
	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%	5.0%	0.0%	5.0%	5.0%	0.0%	6.0%	6.0%	0.0%
	TOTAL GLOBAL EQUITIES	**39.0%**	**42.0%**	**3.0%**	**49.0%**	**53.0%**	**4.0%**	**57.0%**	**61.0%**	**4.0%**
	U.S. Large Cap Equities	17.0%	20.0%	3.0%	21.0%	25.0%	4.0%	25.0%	29.0%	4.0%
	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%	6.0%	0.0%	8.0%	8.0%	0.0%	8.0%	8.0%	0.0%
	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%	4.0%	0.0%	5.0%	5.0%	0.0%	6.0%	6.0%	0.0%
	TOTAL GLOBAL REAL ASSETS	**7.0%**	**8.0%**	**1.0%**	**7.0%**	**9.0%**	**2.0%**	**7.0%**	**10.0%**	**3.0%**
	Public Real Estate	5.0%	8.0%	3.0%	5.0%	9.0%	4.0%	5.0%	10.0%	5.0%
	Commodities	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%
GROWTH	**CASH ALTERNATIVES**	**2.0%**	**2.0%**	**0.0%**	**2.0%**	**2.0%**	**0.0%**	**2.0%**	**2.0%**	**0.0%**
	TOTAL GLOBAL FIXED INCOME	**23.0%**	**19.0%**	**-4.0%**	**16.0%**	**11.0%**	**-5.0%**	**7.0%**	**5.0%**	**-2.0%**
	U.S. Taxable Investment Grade Fixed Income	**14.0%**	**14.0%**	**0.0%**	**8.0%**	**8.0%**	**0.0%**	**3.0%**	**3.0%**	**0.0%**
	Short Term Taxable	4.0%	4.0%	0.0%	2.0%	2.0%	0.0%	0.0%	0.0%	0.0%
	Intermediate Taxable	6.0%	6.0%	0.0%	3.0%	3.0%	0.0%	0.0%	0.0%	0.0%
	Long Term Taxable	4.0%	4.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%
	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%	3.0%	0.0%	3.0%	3.0%	0.0%	2.0%	2.0%	0.0%
	TOTAL GLOBAL EQUITIES	**68.0%**	**70.0%**	**2.0%**	**75.0%**	**77.0%**	**2.0%**	**84.0%**	**86.0%**	**2.0%**
	U.S. Large Cap Equities	29.0%	31.0%	2.0%	29.0%	31.0%	2.0%	27.0%	29.0%	2.0%
	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%	10.0%	0.0%	13.0%	13.0%	0.0%	14.0%	14.0%	0.0%
	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%	8.0%	0.0%	10.0%	10.0%	0.0%	14.0%	14.0%	0.0%
	TOTAL GLOBAL REAL ASSETS	**7.0%**	**9.0%**	**2.0%**	**7.0%**	**10.0%**	**3.0%**	**7.0%**	**7.0%**	**0.0%**
	Public Real Estate	5.0%	9.0%	4.0%	5.0%	10.0%	5.0%	5.0%	7.0%	2.0%
	Commodities	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%	2.0%	0.0%	-2.0%

Source: Wells Fargo Investment Institute, January 3, 2018.

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