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INTERNSHIP RESEARCH BRIEF

Wells Fargo Global Investment Strategy Report
Fact, Assumption, Time Horizon & Investment Implication Analysis

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1. Central Thesis

Thesis

Wells Fargo believes three main forces — geopolitics, domestic fiscal pressure, and AI infrastructure demand — will keep inflation and interest rates firmer than Wall Street analysts expect.

WF Position

Favor Financial sector companies and select AI-related equities. Prefer intermediate duration bonds (3–7 year) over long-term. Cautious on long-dated Treasuries.

Fact

Wall Street consensus sees the 10-yr Treasury yield ending 2026 at 4.17%.

Assumption

WF assumes the 10-yr Treasury yield lands higher, at 4.25–4.75%, as their year-end 2026 forecast.

Time Horizon

Year-end 2026.

2. Story 1 — Iran's War Impact

WF argues that the economic damage from the Iran war will outlast the war itself. Oil prices (and to a lesser degree food prices) stay elevated for months after fighting stops, as supply chains take time to recover. Looking further out, the war pushes the world toward a higher degree of fragmentation, causing unnecessary supply chain redundancy. WF believes some nations will explore payment systems outside the US-led one, but still expects the US dollar to remain the world's primary reserve currency.

2.1 Fact vs. Assumption

Facts

- The Strait of Hormuz closure disrupted global trade.
- Gulf states held roughly \$315B in US Treasuries at end of 2025 (~1% of the total).
- Gulf sovereign wealth funds manage over \$5T, with ~\$2T in US-dollar assets.
- The Middle East supplies ~30% of the world's helium and carries ~30% of global internet traffic.
- India's PM Modi urged citizens to work from home and limit travel.



Assumptions	- Prices stay elevated even after the war ends; shipping flows take 2–3 months to recover before gradual normalization. - Global fragmentation accelerates while NATO and other alliances still hold together. - Dollar erosion stays marginal. - Gulf governments may redirect capital away from US assets toward reconstruction and defense.
Time Horizons	- Short-term: 2–3 month shipping recovery. - Medium-term: Elevated prices in the months after the war ends. - Long-term: Supply-chain fragmentation, shifting alliances, and dollar competition.

2.2 WF Investment Position

Favorable	Cautious	Neutral	Fixed Income
Financials Industrials Aerospace & Defense	Airlines (high fuel costs)	Emerging Markets	Intermediate-term bonds (3–7 year)

3. Story 2 — New Fed Chair

WF argues that the new Fed chair, Kevin Warsh, won't change the central bank's direction quickly, because the forces that actually drive interest rates — inflation, economic growth, and government borrowing — matter far more than who holds the chair. Either way, WF expects long-term yields to keep rising.

Key Analytical Note — Warsh's Balance Sheet Paradox

Warsh holds some unconventional views: he favors lower short-term interest rates but wants to shrink the Fed's balance sheet. There is a critical internal tension here. Shrinking the balance sheet could actually push long-term yields up, not down. If the Fed holds fewer bonds, private investors have to absorb more Treasury debt and will likely demand higher yields to do so — which reinforces WF's view that long-term rates climb even as the Fed loosens short-term policy.

3.1 Fact vs. Assumption

Facts	- Kevin Warsh has been confirmed by the Senate and will succeed Jerome Powell, having previously served as a Fed governor from 2006–2011. - The FOMC has 12 voting members — no single person can unilaterally shift policy direction. - Powell intends to stay on the Board of Governors through 2028 — the first outgoing chair to do so in nearly 80 years. - Since the Fed began cutting in 2024, the federal funds rate has fallen 169 basis points, while the 10-year Treasury yield has actually risen 70 basis points.
Assumptions	- Policy won't shift quickly without broad committee agreement. - Long-term yields and the term premium keep rising over time. - Powell's continued presence adds stability and lowers the odds of abrupt policy swings. - A steep yield curve benefits banks.



3.2 WF Investment Position

Fixed Income	Equities
Underweight long-dated US bonds (rising rates erode price). Favor medium-length 3–7 year bonds — solid yield, lower rate sensitivity.	Most favorable on Financials. A steep yield curve widens the spread between deposit costs and loan earnings.

4. Story 3 — Evolving AI Landscape

WF argues that even though regulators are pushing back on the data-center buildout, the momentum behind AI is too strong to stall. The real bottleneck isn't regulation — it's power. Data centers are being built across the US so fast they're straining local electricity grids. When rules or permits get restrictive in one state, companies simply shift projects to states with friendlier policies and available power — so regulation slows individual locations, not the buildout overall. AI spending is on track to hit a record high in 2026.

4.1 Fact vs. Assumption

Facts	• Over 300 data-center bills have been filed across 30+ states; none yet enacted. • Seven major cloud providers ("hyperscalers") signed a March 2026 pledge to fund the full cost of the power their projects require. • AI capital spending is projected to hit a record ~\$750 billion in 2026 — contributing nearly 1.3 of the 2.0 points of Q1 GDP growth. • IT has outperformed the S&P 500 since the Iran conflict began.
Assumptions	• AI capex momentum continues; companies keep relocating projects to permissive states. • Markets don't view AI regulation as a near-term, high-probability threat. • Large- and mid-cap US equities are well positioned to benefit from sustained AI demand. • Utilities and Industrials ride along as secondary beneficiaries.

4.2 WF Investment Position

IT Sector	Utilities	Industrials
Upgraded to Favorable (early April 2026 after pullback improved valuations)	Favorable (power generation & grid infrastructure demand)	Favorable (equipment & buildout beneficiary)

5. Analyst Notes & Independent Observations

Note 1 — Thematic Convergence

All three stories funnel to the same overarching conclusion: interest rates will be higher for longer. The investment implications are consistent throughout — own more Financial stocks, avoid long-duration bonds (rising rates erode their value), and maintain exposure to the AI theme.

Note 2 — Data Sourcing Observation



Most facts woven into the report are "secondhand" — WF sourced external data but nothing appears to be WF-verified through primary research. Readers should independently verify key statistics before acting on them.

Note 3 — Potential Conflict of Interest

Wells Fargo — a bank — rates Financial stocks most favorably throughout the report and consistently signals that Financials are on the rise. This warrants independent scrutiny: the recommendation could reflect genuine analytical conviction, or it could reflect institutional self-interest in lifting sentiment around bank equities including WF's own stock price. Readers should apply an independent filter before weighting this view.

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