

STIFEL

FAVORITE

15

May 2024

Insights From Stifel's CIO Office

1. **Artificial Intelligence:** *Our investment themes identify drivers of change like the Fourth Industrial Revolution and how technology, specifically artificial intelligence (AI), is blurring the lines of our physical, digital, and biological world.*
2. **AI: Future Economic Impact:** *Global GDP is estimated to be 14% higher to \$15.7 trillion in 2030, attributable to AI improving productivity and enhancing products.*
3. **AI: The Future is Now:** *AI is already impacting our world today across various sectors, including healthcare, agriculture, industrials, and aerospace.*
4. **Inflation and Federal Reserve Policy:** *The rolling three-month average for the consumer price index and producer price index show a resurgence in inflation away from the Federal Reserve (Fed)'s 2% target.*
5. **Inflation:** *The Fed is closely watching shelter, which has stayed elevated as landlords continue to increase rent.*
6. **Federal Reserve Meeting:** *Recent commentary from Fed officials has been pointing to the Fed not cutting rates soon, or possibly looking at further rate hikes.*
7. **2024 Interest Rate Forecasts :** *The market had been expecting more rate cuts than the Fed, but with the most recent data, we have seen the market's view align with the Fed leaving interest rates elevated.*
8. **Economic Forecasts:** *Consensus economist forecasts for 2024 are somewhat more positive than our own.*
9. **Economic Growth:** *Small businesses' expectations on future conditions are less optimistic, partially as a result of higher rates.*
10. **Consumer:** *Companies are seeing a slowdown in consumer spending, especially as it relates to the lower-income consumer.*
11. **Bond Yields:** *Various categories within fixed income are showing attractive yields.*
12. **Market Performance:** *Year-to-date performance has softened as rates have moved higher, yet we still see dominance by the "Magnificent Seven."*
13. **Magnificent Seven:** *While the Magnificent Seven may look more overvalued than the market overall based on the price-earnings (P/E) ratio, we can adjust the analysis to account for earnings growth by using the PEG (P/E over growth) ratio.*
14. **S&P 500 – Performance:** *There are different periods in time when the cap-weighted index and equal-weighted index outperform. Long term, we recommend sticking to your investment strategy and objectives.*
15. **2024 Elections:** *The election is uncertain and will most likely create a divided government; an electoral college vote tie is possible.*

THE FIVE THEMES



FOURTH INDUSTRIAL REVOLUTION

Technological innovation has broken down the boundaries between the physical, digital, and biological worlds.

- Data as a Commodity*
- |
- Enhanced Computing*
- |
- Workforce Optimization*
- |
- Future of Transportation*



SECURING STRATEGIC RESOURCES

Companies and governments are prioritizing the development and protection of critical industries, resources, and services.

- Food and Water Security*
- |
- Net Zero Transition*
- |
- Renewable Energy*
- |
- Circular Economy*



SHIFTING DEMOGRAPHICS

Changes in global population dynamics will bring about challenges and opportunities.

- Millennials*
- |
- Emerging Global Middle Class*
- |
- Aging Population*
- |
- Future of Health*



THE NEW CONSUMER

Consumer preferences, expectations, and behavior are altering business models and corporate strategies.

- Reimagined Convenience*
- |
- Digitalization of Human Connectivity*
- |
- Future of Finance*
- |
- Future of Leisure*



PRODUCTIVE COMPETITION

Rivalry ultimately drives innovation, improves quality of life, and creates value for consumers and the economy.

- The New Cold War*
- |
- Geopolitical Tensions*
- |
- Localization*
- |
- Transforming Business Models*

Get to Know Our Long-Term Investment Themes

FAVORITE
15

Global GDP is estimated to be 14% higher in 2030 - \$15.7 trillion

Improved productivity

(\$6.6 trillion increase in GDP by 2030)

- Examples
 - Automation
 - Improved traffic flow
 - Digital twins

Product enhancements

(\$9.1 trillion increase in GDP by 2030)

- Examples
 - AI-powered diagnostics
 - Predict consumer behavior
 - Customized apparel

Source: Stifel CIO Office via PricewaterhouseCoopers, *Global Artificial Intelligence Study (2017)*

HEALTH CARE

Instantly predict the shape of a protein, leading to drug discovery

Enabling a tool to diagnose sepsis



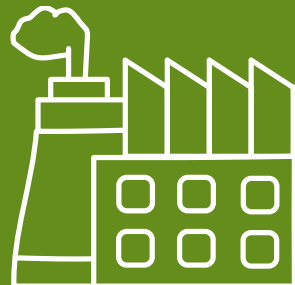
AGRICULTURE

Scan 2,100 square feet of farmland per second, allowing farmers to spray only weeds, reduce herbicide costs, and improve quality of crops



INDUSTRIALS

Evaluate data from sensors installed on equipment to predict failure before it occurs, limiting down time

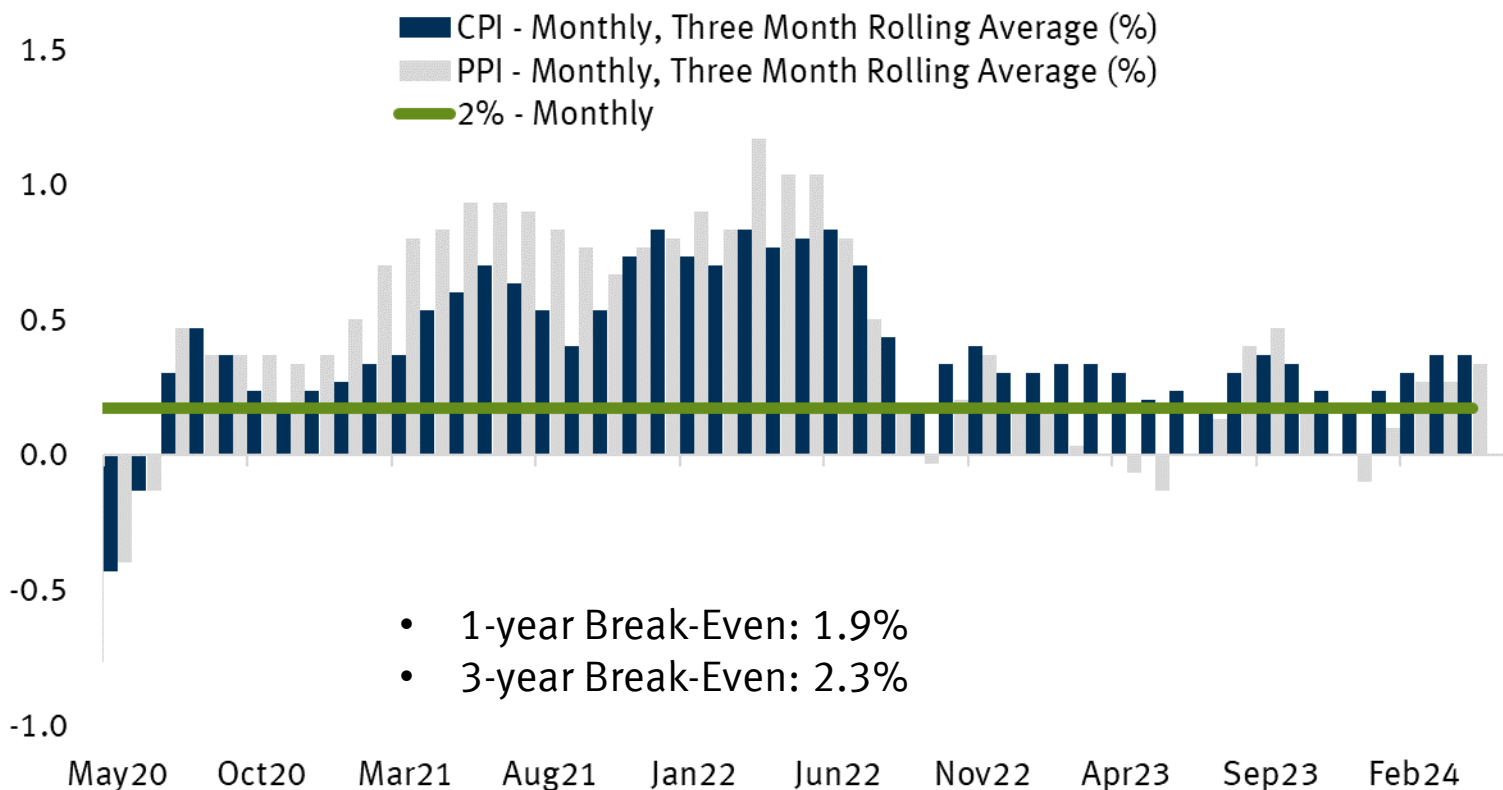


AEROSPACE

Using augmented reality to assist technicians with real-time, hands-free, interactive 3D wiring diagrams

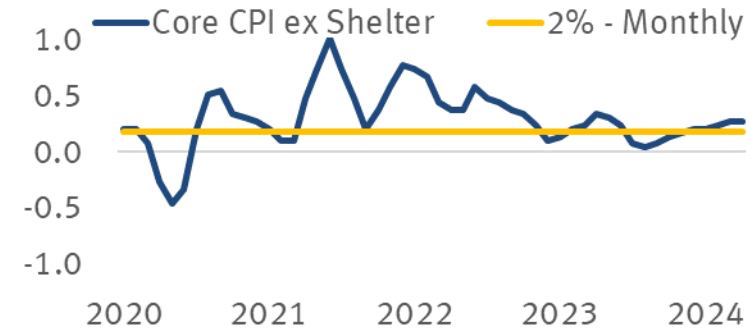
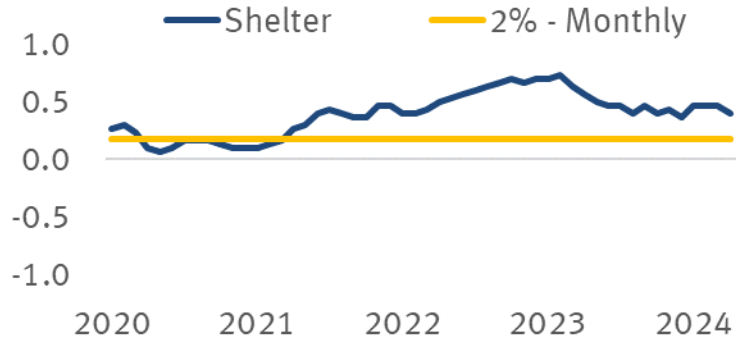
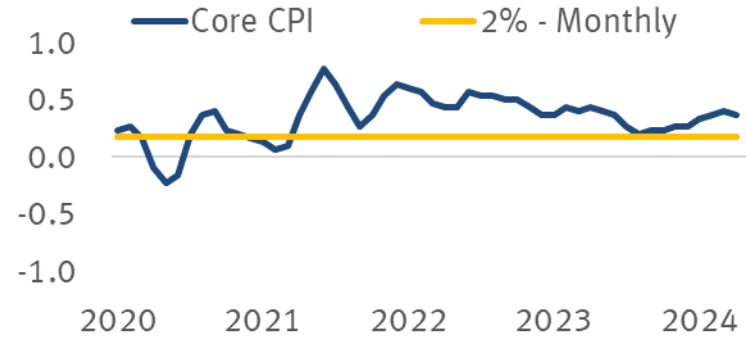
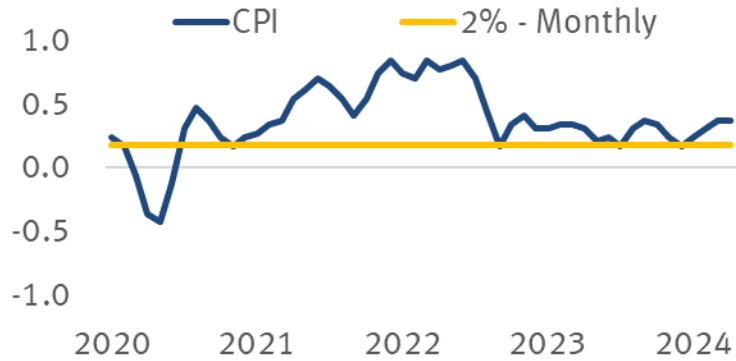


Sight | Lines: [AI Will Change Our Future: It's Transforming Our World Today](#)



Source: Stifel CIO Office via Bloomberg, as of May 31, 2024

PPI = Producer Price Index
 CPI = Consumer Price Index



Source: Stifel CIO Office via Bloomberg as of May 31, 2024;
 Figures above are based on 3-month moving average month-over-month data.

Less Dovish Signals

May Fed Meeting

- Monetary policy unchanged, changes to statement
- Detailed plans for shrinking balance sheet holdings.
- Added: “In recent months, there has been a lack of **further** progress toward the Committee's 2 percent inflation objective.”
- Changed economy “continued to expand” vs. “has been expanding.”
- Changed risks to achieving employment and inflation goals “have moved toward” versus “are moving toward” better balance.
- Powell noted policy is/will be sufficiently restrictive – “it's **unlikely** that the next policy rate move will be a hike.”
- Remains data-dependent and will balance risks.

SEP = Summary of Economic Projections
 PCE = Personal Consumption Expenditures
 Source: Stifel CIO Office

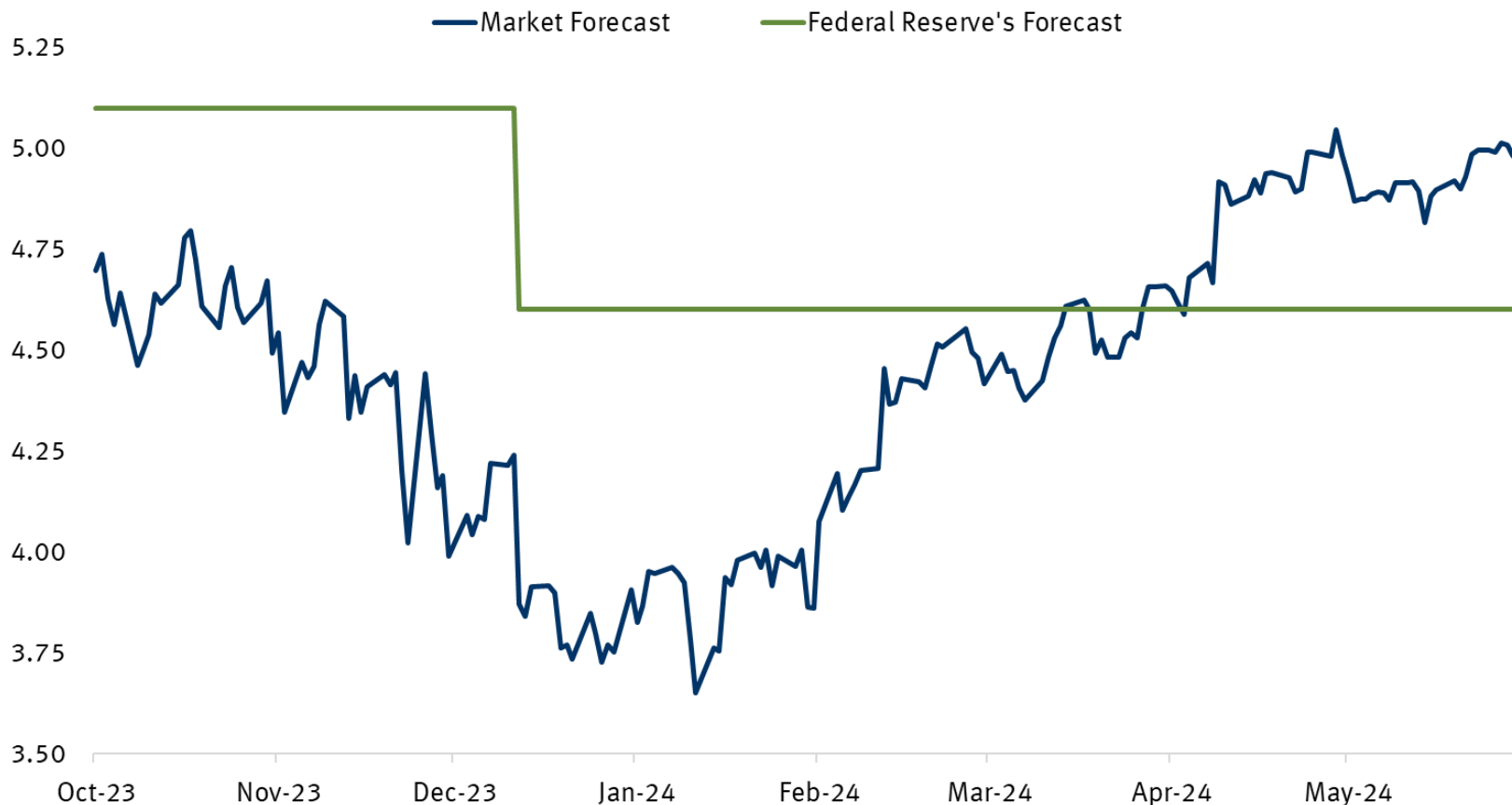
SEP: Year-End 2024

	PCE Inflation	Fed Funds Rate	Real GDP		
			2024	2025	Longer Run
December 23	2.4%	4.6%	1.4%	1.8%	2.5%
March 24	2.4%	4.6%	2.1%	2.0%	2.6%
Change	0.0%	0.0%	0.7%	0.2%	0.1%

Fedspeak

- “**Smart for the Fed to take our time**” in cutting rates because “no one wants inflation to reemerge.” – Richmond Fed President Thomas Barkin
- “Disinflation may continue to be uneven...this also implies that **less easing of policy this year** than previously thought may be warranted.” – Boston Fed President Susan Collins
- “So far this year, **the data have not given us that greater confidence**” and “appropriate to take signal now.” – Fed Chair Jerome Powell
- “While the current stance of monetary policy appears to be at a restrictive level, I remain **willing to raise the federal funds rate** at a future meeting should the incoming data indicate the progress on inflation has stalled or reversed.” – Fed Board Michelle Bowman

Federal Funds Rate Forecast for the End of 2024



Source: Stifel CIO Office via Federal Reserve and Bloomberg data, as of May 31, 2024

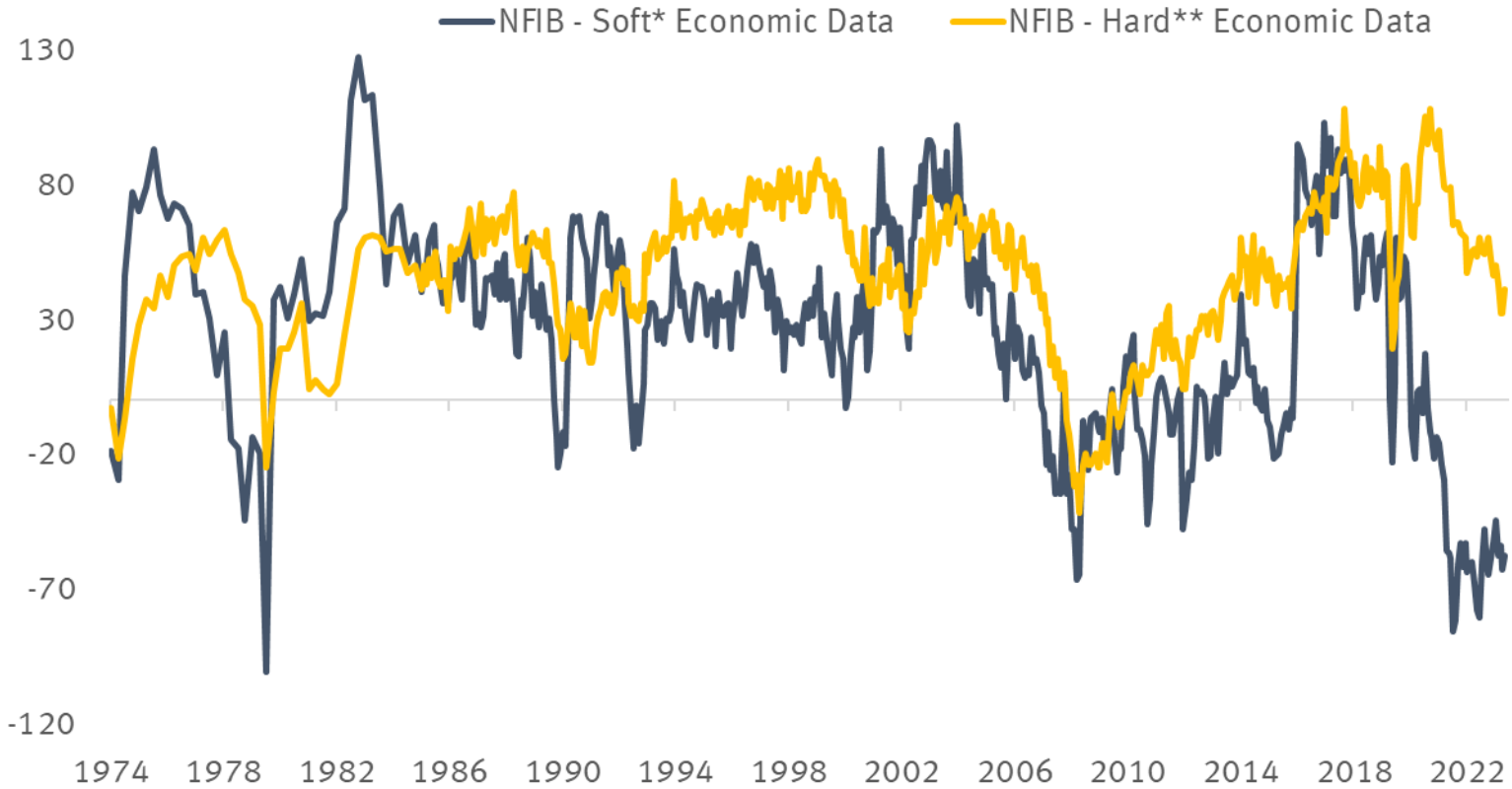
U.S. GDP	Date of Estimate	Q3 2023	Q4 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Consensus Estimates	5/30/2024	4.9	3.4	2.5	1.3	2.3	1.7	1.6	1.8	1.9	2.4	1.8
Consensus Estimates	January	0.0	0.9	0.3	1.5	1.8	1.0	1.6	1.8	1.9	1.3	1.7
Stifel	5/9/2024	2.6	1.9	2.8	1.9	2.4	2.1	1.7	0.9	1.4	2.6	1.6
Goldman Sachs	5/29/2024	4.6	2.1	2.8	3.1	3.1	2.4	2.4	2.0	2.1	2.8	2.2
Capital Economics	5/24/2024	3.5	1.9	2.4	2.5	2.7	1.5	1.6	1.9	2.2	2.6	2.0
Strategas	5/24/2024	3.0	2.0	2.4	2.5	1.8	2.0	2.0	2.0	1.8	2.5	1.9
UBS	5/24/2024	4.7	1.4	2.4	2.1	2.2	1.0	0.9	1.5	1.6	2.4	1.4
Wells Fargo	5/24/2024	4.7	1.7	2.4	2.2	2.7	1.9	1.5	1.8	2.0	2.6	2.4
Bloomberg Economics	5/24/2024	4.9	1.1	2.4	2.7	1.8	1.2	1.0	1.5	2.0	2.3	1.6
Barclays	5/24/2024	5.0	2.0	2.5	2.5	2.5	2.0	1.5	1.5	1.5	2.6	1.6
JPMorgan Chase	5/24/2024	4.3	2.0	2.5	2.3	2.3	1.0	1.0	2.0		2.4	1.7
Federal Reserve**	3/20/2024			2.6							2.1	2.0

Annualized percent change from prior quarter and year-over-year change are shown for quarterly and yearly periods, respectively. Stifel estimates based on Stifel sell-side Economics department estimates. **Percent change from fourth quarter to fourth quarter one year ago. "Consensus Estimates" for time periods that have passed represent actual results and consensus estimates in grey shaded boxes represent first estimate of year.

Source: Stifel CIO Office via Bloomberg, as of May 30, 2024. Federal Reserve (Fed) estimates are as of March 20, 2024.



NFIB Optimism Index Components



Source: Stifel CIO Office via Fundstrat, as of May 31, 2024

*National Federation of Independent Business (NFIB) *Soft Economic Data* includes: Expected Business Conditions, Outlook for Expansion, Expected Real Sales, Expected Credit Conditions, Inventory Satisfaction.

**National Federation of Independent Business (NFIB) *Hard Economic Data* includes: Job Creation Plans, Job Openings, Inventory Plans, Earnings, CapEx Plans.



“Strong labor markets and solid wage growth remain in countries across the globe. This is supportive of **healthy consumer spending**”
- MasterCard CEO Michael Miebach

“Everybody's **fighting for fewer consumers** or consumers that are certainly visiting less frequently...” – McDonald's CEO Chris Kempczinski

“As the results show, **customers are shopping but remain cautious**, trading down on price when they can, and seeking out deals.” – Amazon CEO Andy Jassy

“We're **seeing a much more cautious low-income consumer**...They're feeling more of the pressure of the cost of living, which has been high and increased for them. So while there is employment for them, debt servicing levels are higher than they were before.” – Citigroup CEO Jane Fraser

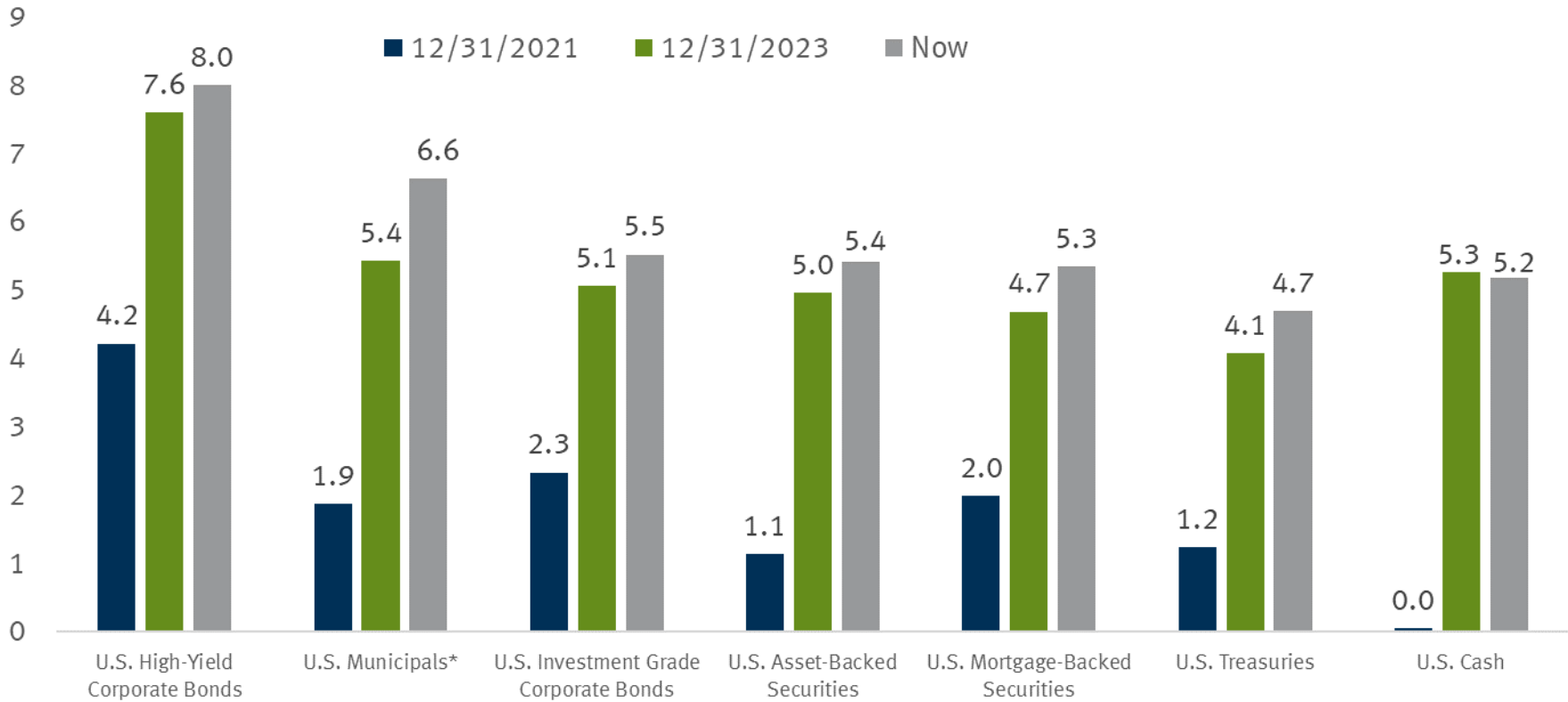
“Spending patterns of consumers using our debit and credit cards remain **generally consistent and continue to grow year over year**. Consumer credit is performing as we expect.” - Wells Fargo CEO Charles Scharf

“The **lower income consumer in the U.S. is stretched**...he is strategizing a lot to make their budgets get to the end of the month.”
– PepsiCo CEO Ramon Laguarta

“So, I would **say consumer customers are fine**...The amount of income they need to service their debt is still kind of low....So whatever happens, the customer is in pretty good shape. – JPMorgan CEO Jamie Dimon

“But in this environment, **many customers are being more exacting** about where and how they choose to spend their money, particularly with stimulus savings mostly spent.” – Starbucks CEO Laxman Narasimhan

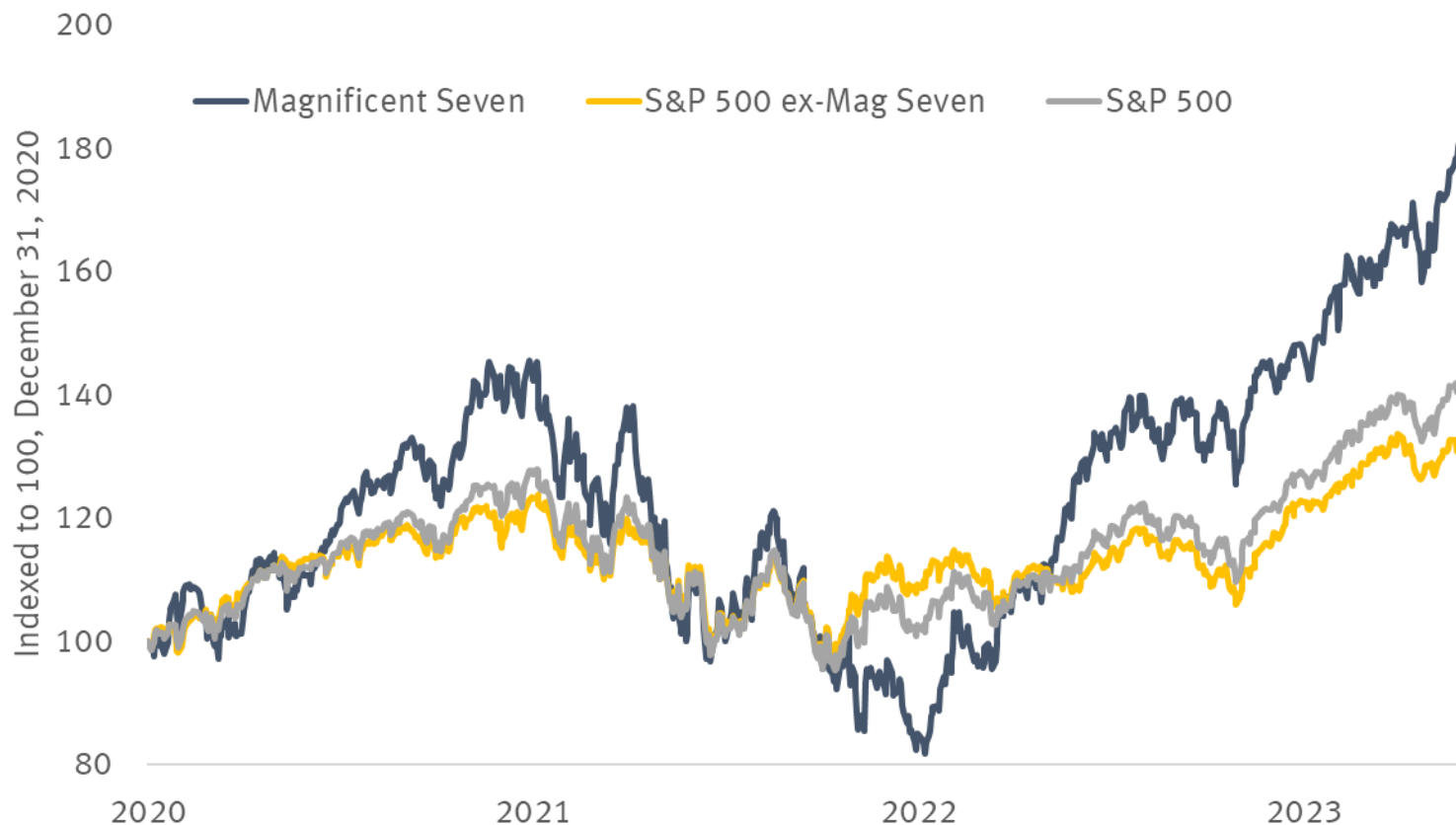
Yield (%)



*Based on taxable equivalent yield. Taxable equivalent yield assumes a 37% federal tax and 3.8% net investment income tax.

Source: Stifel CIO Office via Bloomberg, as of May 31, 2024

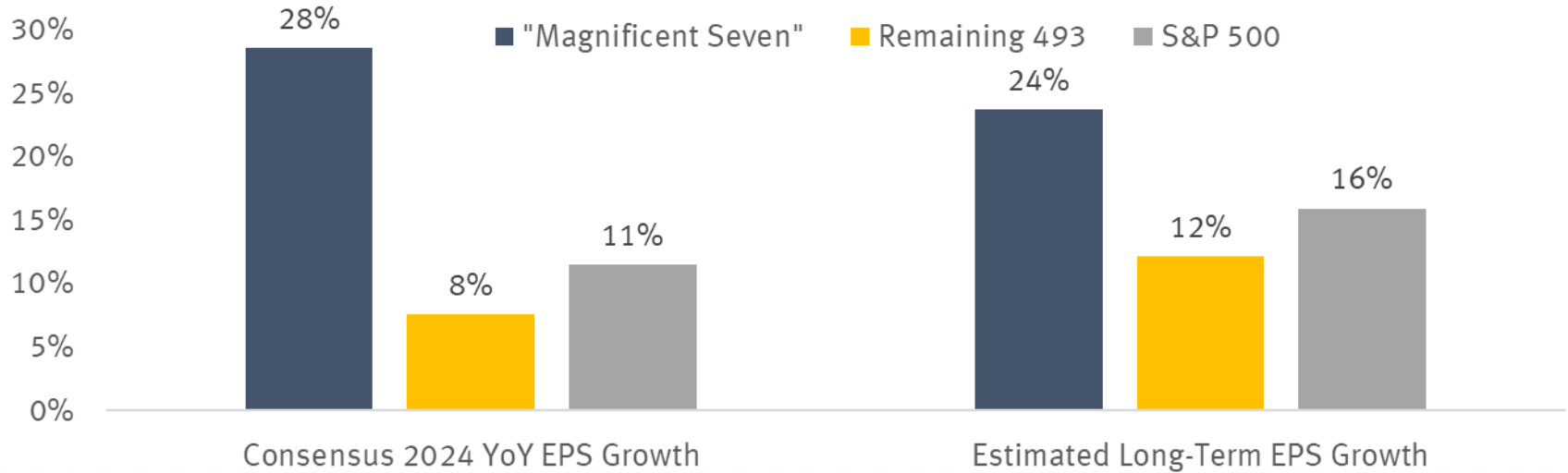
Price Return	2021	2022	2023	2024 YTD
Magnificent Seven	42%	-40%	74%	21%
S&P 500 ex-Mag Seven	23%	-12%	13%	7%
S&P 500	27%	-19%	24%	11%



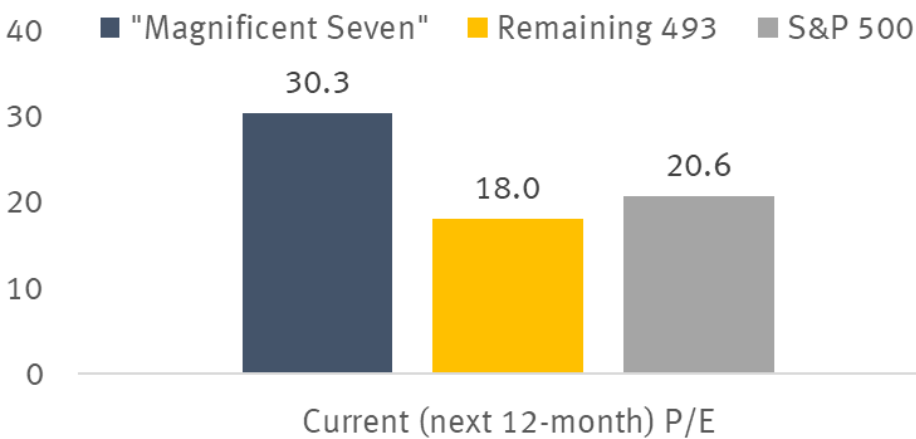
Price returns shown above.

Source: Stifel CIO Office via Bloomberg, as of May 31, 2024. Magnificent Seven includes Apple, Amazon, Alphabet, Meta Platforms, Microsoft, NVIDIA, Tesla.

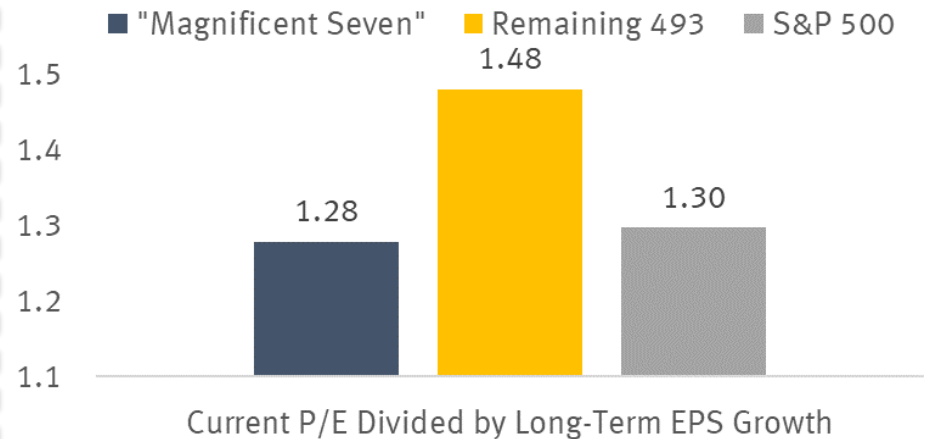
Earnings Growth



P/E Multiples

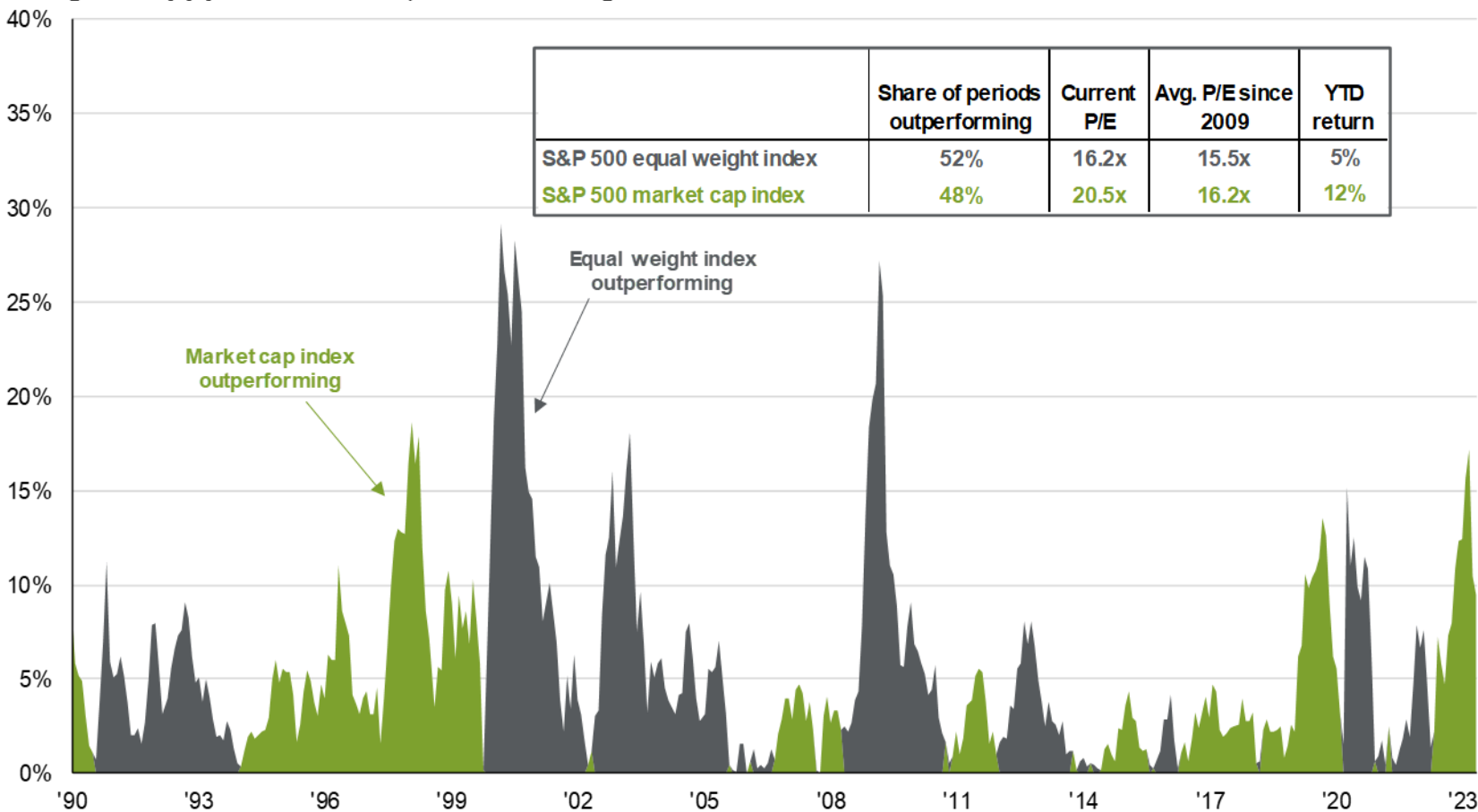


PEG Ratios



S&P 500 market cap and equal weight relative performance

Rolling monthly y/y total returns, outperformance = high - low



Source: FactSet, J.P. Morgan Asset Management.
 Guide to the Markets – U.S. Data are as of June 4, 2024.



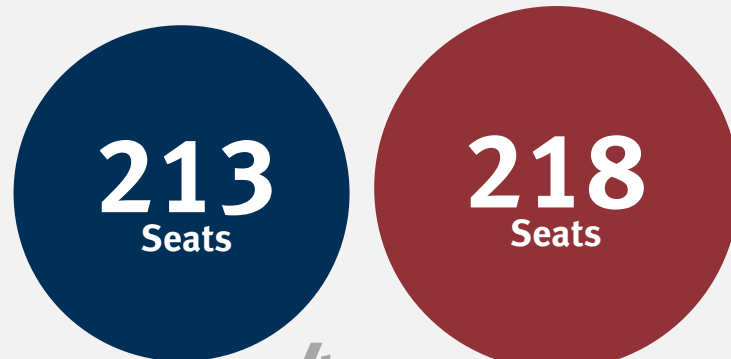
Getting Ready: The 2024-U.S. Presidential Election

Our approach on preparing for the election:

- Understanding the 4 phases of the election
 1. Early primary
 2. Late primary
 3. General election
 4. Post-election
- Anticipating each candidate's impact on businesses and markets
- Understanding each candidate's chances of winning
- Assessing any possible changes in congressional control

CONGRESS

HOUSE OF REPRESENTATIVES



4 Vacant

All 435 seats up for re-election

SENATE



23 Up for Re-election

10 Up for Re-election

3 Independent

INDEX DESCRIPTIONS

Bloomberg U.S. Treasury Bills 1-3 Months Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than three months and more than one month, are rated investment grade, and have \$250 million or more of outstanding face value.

Bloomberg U.S. Corporate IG Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Aggregate Corporate Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Corporate High Yield is an unmanaged index considered representative of fixed-rate, noninvestment-grade debt.

Bloomberg U.S. Government Bond Index is an unmanaged index considered representative of fixed-rate, investment-grade US Government debt.

Bloomberg Global Aggregate This index provides a broad-based measure of the global investment-grade, fixed-rate debt market.

DXY Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

S&P 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

S&P 500 Equal Weight Index is the equal-weight version of the widely regarded Standard & Poor's 500 Index, which is generally considered representative of the U.S. large capitalization market. The index has the same constituents as the capitalization-weighted S&P 500, but each company in the index is allocated a fixed weight of 0.20% at each quarterly rebalancing.

S&P 500 Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

Bloomberg U.S. 1000 Value Index provides exposure to companies with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth.

Bloomberg U.S. 1000 Growth Index provides exposure to companies with superior growth factor scores based on their earnings yield, valuation, dividend yield, and growth.

Bloomberg U.S. 1000 Index is a float market-cap-weighted benchmark of the 1000 most highly capitalized US companies.

Bloomberg U.S. 2000 Index is a float market-cap-weighted benchmark of the lower 2000 in capitalization of the Bloomberg US 3000 Index.

MSCI EAFE Index captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 914 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Emerging Markets (EM) Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 837 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Morgan Stanley Market implied pace of hikes index (MSPOKE) is the number of Fed rate hikes in the 12 months following the first rate hike implied by the Eurodollar interest rate futures market.

The **MSCI World Index** is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets.

The **UBS Magnificent Seven Index** tracks a group of seven of the largest mega cap tech stocks listed in the U.S. The stocks mirror their respective S&P 500 weight reweighted pro-rata. Created October 2023 – rebalanced and reconstituted semi-annually.

INDEX DESCRIPTIONS

Wilshire 5000 Index is a market-capitalization-weighted index of the market value of all stocks actively traded in the United States.

VIX Index shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. According to STOXX, its goal is "to provide a blue-chip representation of Supersector leaders in the Eurozone

Cash & Cash Equivalent is represented by the Bloomberg U.S. Treasury 3-6 months Bill Index, comprised of treasury bills issued by the U.S. government with less than one year to maturity.

U.S. Government Bonds is represented by the Bloomberg U.S. Government Bond Index, comprised of the U.S. Treasury and U.S. Agency indexes.

U.S. Corp IG Bonds is represented by the Bloomberg U.S. Corporate Bond Index, comprised of the investment grade, fixed-rate, taxable corporate bond market.

High-Yield Bonds is represented by the Bloomberg U.S. Corporate High Yield Bond Index, comprised of U.S. Dollar denominated, high-yield, fixed-rate corporate bond market securities.

U.S. LC (Large Cap) equities is represented by the Bloomberg U.S. 1000 Index, comprised of a float market-cap-weighted benchmark of the 1000 most highly capitalized US companies.

U.S. SC (Small Cap) equities is represented by the Bloomberg U.S. 2000 Index, comprised of a float market-cap-weighted benchmark of the lower 2000 in capitalization of the Bloomberg US 3000 Index.

Developed International Equities is represented by the MSCI EAFE Index, comprised of equity securities that belong to markets outside of the U.S. and Canada.

Emerging Markets Equities is represented by the MSCI EM Index, comprised of equity securities that belong to emerging markets.

Moderate Bench stands for moderate benchmark portfolio return which is a blended portfolio of stocks (60% weight, represented by MSCI AC World Index) and bonds (40% weight, represented by Bloomberg U.S. Agg Gov/Credit).

MSCI AC World Index is comprised of equity securities belonging to 23 developed markets and 24 emerging markets countries.

Bloomberg U.S. Government/Credit Bond Index is comprised investment grade, dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

KBW Nasdaq Regional Banking Index seeks to reflect the performance of U.S. companies that do business as regional banks of thrifts.

NYSE FANG+ Index is an equal-dollar weighted index designed to track the performance of highly-traded growth stocks of technology and tech-enabled companies in the technology, media & communications and consumer discretionary sectors such as Facebook, Apple, Amazon, Netflix, and Alphabet's Google.

NCREIF Property Index is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only.

DISCLOSURES

Past performance does not guarantee future results. Investing involves risk, including the possible loss of principal. Asset allocation and diversification do not ensure a profit or protection against loss.

Alternative Investments or Non-Traditional Assets – Alternative investments may include, but are not limited to: Real Estate Investment Trusts (REITs), Commodities, Futures, Hedge Funds, Venture Capital, Limited Partnerships, etc.

Real Estate – When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Commodities and Futures – The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Hedge Funds – Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.

Venture Capital – Venture capital investments involve substantial risks. The risks associated with investing in companies in the start-up or expansion stages of development are greater than those of companies in later stages, because the companies' business concepts generally are unproven and the companies have little or no track record.

Limited Partnerships – Generally, limited partnership investments are suitable only for a narrow class of relatively sophisticated investors. Limited partnership investments may be speculative in nature and be subject to resale restrictions or illiquidity. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Bonds – When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher quality bonds.

Duration – Duration is a measure of the sensitivity of the price – the value of principal – of a fixed income investment to a change in interest rates. Duration is expressed as a number of years.

Standard Deviation – Standard deviation is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean. If the data points are further from the mean, there is higher deviation within the data set.

International and Emerging Markets – There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Private Equity – Private equity funds are not appropriate for all investors. Investors should be aware that private equity funds may contain speculative investment practices that can lead to a loss of the entire investment. Private equity funds may invest in entities in which no secondary market exists and, as such, may be highly illiquid. The funds are not required to provide periodic pricing or valuation information to investors and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information.

DISCLOSURES CONTINUED

Short Positions – The investor should note that when a short position moves in an unfavorable way, the losses are theoretically unlimited. The broker will demand more collateral and the manager might have to close out that short position at an inopportune time to limit any further losses.

Small Company Securities – Small company securities are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

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*Director, Investment Management
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